THE REPORT OF THE LAND REVENUE COMMITTEE 1938

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Proceedings of the Governor of the Punjab in the Department of Revenue no. 413-S., dated September 9/12, 1939.

READ—

The Report of the Land Revenue Committee and the minutes of the meetings of the Committee assembled by the Hon'ble Minister for Revenue to consider it.

REMARKS.

THE original copy of the Report of the Land Revenue Committee was signed on the 16th May, 1938. But the finished volume did not reach Government from the Press till the 12th of December, 1938. The report came under the active consideration of Government in consultation with their expert advisers, when they moved to Simla. It was difficult to start detailed consideration earlier owing to the pressure of Assembly business and the great complexity of the problems investigated in the report. The Committee's comprehensive and far-reaching recommendations have now been studied in detail by an official Committee attended both by the Ministers and by the experts of the departments concerned.

2. Some of the most important recommendations, especially those relating to the relief of the small-holder, are linked with and dependent on problems which have been referred to other Government Committees, in particular the Resources and Retrenchment Committee. When the report of that Committee is available, these recommendations will have to be most carefully weighed. But till then final decisions cannot well be taken.

This applies particularly to the Committee's fundamental finding that the principles of income-tax assessment cannot satisfactorily be applied to the assessment of land revenue. It is clear from the report that this question has been most thoroughly and carefully examined. The Committee's other recommendations also involve the consideration of some highly technical problems, such as the sliding-scale system of granting relief. This difficult question is still being examined by the experts.

3. Government have, however, decided not to delay any longer the publication of the Report of the Land Revenue Committee, as they are anxious to have the views of the Legislature on the general principles involved and wish therefore to give members of the Assembly time to study the report before the Assembly meets for its next session.

4. The Punjab Government desire to take this opportunity of expressing their gratitude to Sir Malcolm Darling and his colleagues and their high appreciation of the meticulous care with which every aspect of the difficult problems referred to them has been considered. They desire also to thank the distinguished experts (including several retired officials) who contributed written statements of their views for the consideration of the Committee. These well thought out and interesting statements have been printed as appendices to the report, which not only covers the questions referred for solution but will remain as a permanent and most valuable contribution to the literature on the Land Revenue System of the Punjab.

ORDER.

ORDERED that a copy of these remarks be published in the *Punjab Gazette*.

By order of the Governor of the Punjab,

C. C. GARBETT,

Financial Commissioner, Revenue,
and Revenue Secretary to Government,
Punjab.

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INTRODUCTORY.

The Committee's terms of reference.

1. On the 24th of June, 1937, the Premier announced to the Punjab Legislative Assembly that his Government had decided to appoint a committee to enquire into, and report on, the following matters :—

(1) Whether a practical scheme can be devised by which the principles of income-tax assessment can be applied to the assessment of land revenue, and in particular whether all or any of the following incidents of income-tax assessment are capable of adoption :—

(*a*) A minimum below which the net assets of land shall not be liable to assessment ;

(*b*) A yearly estimate of net assets for every revenue payer ;

(*c*) A graduated scale of assessment, the rate increasing with the net assets ;

(*d*) A special rate of assessment on incomes exceeding a certain sum on the analogy of the super-tax ;

(*e*) Liability of the rates of assessment to vary from year to year according to legislation embodied in the Finance Bill.

(2) Whether any other scheme can be recommended by which the land revenue system can be revised so as to give relief to the small holder. Any such scheme should provide for the difficulties created by the sub-division of holdings by inheritance, partition and other causes.

(3) The loss to Government revenues of any scheme proposed by the Committee.

2. The Committee was constituted as follows :—

Mr. M. L. Darling, C.I.E., I.C.S., Financial Commissioner, Chairman.

Khan Bahadur Sheikh Khurshaid Mohammad, M.A., P.C.S., Deputy Commissioner.

Lala Asa Nand Kumar, M.A., Assistant Commissioner of Income-Tax, Punjab.

Mr. A. S. Lall, I.C.S., was appointed Secretary.

The questionnaire.

3. The Committee met during the last week of July to draw up a questionnaire. This will be found in Note B. It was translated into the three chief vernaculars of the province, and copies were sent to all whom it was likely to interest including the members of the Legislative Assembly, and to all who applied for them. One hundred and seventy-six answers were received, and also 495 petitions asking for changes in the land revenue system.

Opinions of experts.

4. Several retired members of the Punjab Commission, all distinguished for their intimate knowledge of the economic and revenue problems of the province, were sent copies of the questionnaire and specially invited to favour the Committee with their opinions. Nearly all complied with this request and our special thanks are due to them for placing their unrivalled knowledge and experience at our disposal. Some of the opinions received are of such weight and interest that we have attached a copy of them to our report.[1] They are, moreover, a timely reminder of the principles upon which the land revenue system of the Punjab has been built up in the past. We are also under special obligation to the revenue experts still amongst us, who have given much time and thought to the consideration of our difficult problems. Their assistance is reflected in every chapter of our report.

Operations.

5. The Committee did not meet again until the 20th December, and for various unavoidable reasons was unable to start serious work until after the Christmas holidays. We spent most of January February and the first half of March on tour and visited eighteen districts,[2] in all of which we recorded evidence, hearing all who wished to see us and everywhere meeting representative groups of landowners. Witnesses from two more districts, Mianwali and Dera Ghazi Khan, were examined at Khushab and Multan, respectively. We were at special pains to obtain the views of the smaller owners, but they were not amongst the most vocal of our witnesses. Representative landowners of the Lahore district were also examined at Lahore. Thus 21 districts were given an opportunity of expressing their views personally to the Committee. Only shortage of time prevented us from visiting the remaining districts. In all 852 witnesses appeared before us and we examined 115 of these individually. We also had the benefit of informal discussions with Dr. T. E. Gregory, Economic Adviser to the Government of India, selected gazetted officers of the Agricultural and Co-operative departments, and also with the

[1] Note C.

[2] Montgomery, Multan, Lyallpur, Jhang, Shahpur, Jullundur, Karnal, Rohtak, Gurgaon, Ambala, Ludhiana, Amritsar, Attock, Rawalpindi, Jhelum, Gujrat, Kangra and Gurdaspur.

representatives of the Khalsa National Party, which alone of all the parties in the Assembly responded to our invitation to discuss the questions before us.

We take this opportunity to thank all who appeared before us, often at considerable inconvenience to themselves. We owe much to their views and assistance.

Cost.

The total cost of the Committee, excluding the printing of this report, is Rs. 50,500. We recommend that the report be translated into the vernacular.

Errata slip to the Report of the Land Revenue Committee, 1938.

(1) Page 22, paragraph 49, 18th line—*Delete* the word " is ".

(2) Page 22, paragraph 50, 13th line—*Delete* full stop *after* the word " assets ".

(3) Page 24, paragraph 53, 3rd line—*Read* " generally possible " *for* " general possibly ".

(4) Page 28, paragraph 62, 2nd line—*Read* " manageable " *for* " nanageable ".

(5) Page 32, paragraph 71, 14th and 15th lines—*Read* " surprising " *for* " sure prising ".

(6) Page 35, paragraph 79, 19th line—*Read* " to " *for* " t ".

(7) Page 46, paragraph 96, 13th line—*Read* " maximum " *for* " maximnm ".

(8) Page 54, 4th line—*Delete* hyphen *after* the word " very ".

(9) Page 65, paragraph 131, 11th line—*Read* " 200 " *for* " 202 ".

(10) Page 73, footnote to paragraph 151—*Read* " para. 9, page 174 " *for* " page 178 ".

(11) Page 82, paragraph 168, last line—*Read* " to " *before* " income-tax ".

(12) Page 82, paragraph 169, heading—*Read* " Its " *for* " In ".

(13) Page 89, paragraph 183, 11th line—*Read* " the " *for* " t e ".

(14) Page 93. paragraph 191, 9th line—*Read* " Fund " *for* " Board ".

(15) Page 96, paragraph 198, 13th line—*Read* " worst " *for* " orst ".

(16) Page 100, paragraph 206 (*f*), 3rd line—*Read* " anna " *for* " pie ".

(17) Page 102, paragraph 211, 4th line—*Read* " 204 " *for* " 206 ".

(18) Page 105, paragraph 219, 1st line—*Read* " legislation " *for* " legislat on ".

(19) Page 107, paragraph 224, 5th line—*Read* " which " *for* " whic ".

(20) Page 114, paragraph 238, 1st line—*Read* " our " *for* " ou ".

(21) Page 125, recommendation 256 (11) (*c*), 4th line—*Read* " 146 " *for* " 148 ".

(22) Page 125, recommendation 256 (11) (*f*), 1st line—*Read* comma *before* instead of *after* the word " wherever ".

(23) Page 125, recommendation 256 (14), heading—*Read* " Exemption " *for* " Exemplion ".

(24) Page 126, recommendation 256 (17) (*a*), 2nd sub-paragraph, last line—*Read* " the " *for* " he ".

(25) Page 162, paragraph 388, 2nd line—*Read* " employed " *for* " emyloyed ".

(26) Page 171, paragraph 5, last line—*Read* " puts " *for* " put".

(27) Page 177, paragraph 3, 15th line—*Read* " have-littles " *for* " have-littels ".

(28) Page 199, paragraph XIII, 3rd line—*Read* " grounds " *for* " groudns ".

(29) Page 206, paragraph (*vii*), 12th line—*Read* " the land " *for* " the and ".

(30) Page 229, paragraph 3, penultimate line—*Read* " levied " *for* " evied ".

(31) Page 229, paragraph 3, last line—*Read* " land " *for* " and ".

[*To be pasted on the front page.*]

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PART I—The Land Revenue and Income Tax Systems.

CHAPTER 1.

The Punjab Land Revenue System.

Its past history.

6. Land revenue is the modern equivalent of the share of the produce which, from time immemorial, the ruler in India has taken as his due from all land. Manu took from a twelfth to a sixth of the gross produce and in "times of war or other public calamity" as much as a fourth.[1] Under Muslim rule the share taken increased and finally crystallized under Akbar into a third. It is to Akbar and his great minister, Todar Mal, that we owe the foundations of our present system. The State's share was commuted into cash on the basis of a ten-year average of prices,[2] an elaborate land record system was evolved, and an army of officials employed to survey the land and to assess and collect the revenue. This settlement continued in force for nearly a century. Then, as the power of the central Government declined, cess upon cess was added for the enrichment of the local despot or tax-gatherer. The assessment became so heavy that, when the permanent settlement was made in Bengal in 1793, 91 per cent of the rental was taken and at the time it did not seem excessive. It was not till 1844 that in the United Provinces the proportion was reduced to not more than two-thirds, and finally in 1855 to "about one-half".

In the Punjab.

7. Meanwhile, in the Punjab, under the Sikhs "the Government share of the gross produce was assumed, as a matter of right, to be a clear half."[3] Sometimes more was taken, but as a rule the demand varied from two-fifths to one-third of the gross produce. This was the case in all the cis-Indus districts except in the south-west of the Punjab, where Dewan Moolraj ruled. In Multan, his headquarter district, the proportion never exceeded one-fourth of the gross produce and was often only a fifth.[4] In Dera Ghazi Khan, it varied from one-third to a fifth[5], but in both cases heavy cesses had to be paid in addition. The districts south of the Sutlej and the Beas came under British rule before the present province was formed in 1849. They were settled on much the same lines as the neighbouring districts of the United Provinces with the same high proportion of the rental as the standard. This continued until 1860 when the

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[1] *Indian Taxation Enquiry Committee's Report*, i·42.

[2] *Op. cit.* i·42.

[3] *General Report upon the Administration of the Punjab proper for the years 1849-50 and 1850-51*, Lahore 1854, paragraph 233.

[4] *Op. cit.*, paragraph 259.

[5] *Op. cit.*, paragraph 262.

limit for the whole province was fixed at one-half of what were called net assets. This was a maximum limit, and in practice it was rarely reached. There was soon a steady tendency downwards, and in time the proportion came to be nearer a third than a half and from 1914 onwards was often considerably less, as the following table shows—

District.	Year of settlement.	Percentage of net produce taken.
Sialkot	1916	31½
Shahpur	1916	28
Gujrat	1916	25
Lahore	1916	22
Ferozepore	1914	20
Jullundur	1917	21½
Multan	1917—21	36

The present law.

8. So far everything had been done by executive instruction, but in 1928 a limit was fixed by statute. The Punjab was the first province to do this, and it fixed the limit for every assessment circle at "one-fourth of the estimated money value of the net assets" of the circle.[1] Net assets were also defined for the first time, and they were described as "the estimated average annual surplus produce" of an estate or group of estates[2] "after deduction of the ordinary expenses of cultivation."[3] Much the most important of these deductions was the tenant's share of the produce, and the effect of this was to base net assets upon landlords' rents and not upon owner-cultivators' profits. The distinction is of importance and has become so controversial that it is the subject of a separate chapter.[4]

Another important change introduced at the same time was the provision that, with certain exceptions, the demand of an assessment circle, measured by its incidence on the cultivated area, should not be raised at re-settlement by more than 25 per cent. Similarly, in the case of an estate, enhancement was limited to two-thirds.

[1] Punjab Land Revenue Act, section 48-B.

[2] An estate is usually a single village, but it may be either larger or smaller.

[3] Punjab Land Revenue Act, section 3 (18). The definition is given in full in paragraph 68.

[4] Chapter 4.

Relation of land revenue to gross produce.

9. It is clear from what has been said that under British rule, contrary to previous practice, land revenue has been consistently assessed as a proportion of the net, and not of the gross, produce. The main reason for this is that the cost of cultivation in relation to produce varies greatly with the soil, the crop, and the means of irrigation. Where costs are relatively low, as for instance in a colony where the irrigation is by flow, a considerably larger proportion of the gross produce can be taken without hardship than in a tract where irrigation is by well. This is brought out by what is said in paragraph thirteen of Note A. Net produce or net assets, i.e., what remains over after all farming expenses have been met, provide a fairer basis. It is, however, interesting to note that, whereas in 1871 the Punjab Government was disposed to prescribe one-sixth of the gross produce as a fair standard of assessment, the amount now taken, even in these days of depression, is probably less than a sixteenth, which is well below even Manu's lowest figure.[1]

Land revenue a charge on land.

10. "By the ancient law of the country (to quote the Permanent Settlement Regulation of 1793) the ruling power is entitled to a certain proportion of the produce of every acre of land unless it has transferred or limited its rights thereto."[2] Land revenue is, therefore, primarily a charge, not upon persons, but upon the land, and "all land, to whatever purpose applied and wherever situate is liable to its payment."[3] The sites of villages and towns of ancient standing are amongst the very few exceptions to this rule. Being mainly concerned with the land and not with the landowner, it is levied at a uniform rate on land of the same type within an estate or group of estates. But personal factors are not entirely ignored; the size of owners' holdings and the financial condition and customs of the proprietary body are all considered. Far more important, however, are the great variations in soil and irrigation, and their effects upon productivity and the cost of cultivation have to be taken into the most careful account.

Assignments.

11. Over seven per cent of the land revenue (36 lakhs) is assigned to individuals or institutions. Six-sevenths of these assignments are in perpetuity. They mostly derive from pre-British times and were made, sometimes for services rendered, sometimes for religious purposes, and sometimes simply for private benefit. Und British rule they are given only for meritorious service, and never in perpetuity.

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[1] For the detailed calculation see paragraph 27.

[2] Quoted in *Land Revenue Policy of the Indian Government*, 1902, page 5.

[3] Land Revenue Act, section 48.

The value of the assignment is in some cases fixed, but more often varies with the land revenue. In the case of the latter (not of the former) the assignee, who is called a *jagirdar* or *muafidar*, shares in the fortunes of the revenue payer and receives the actual amount recovered from the area under assignment. The amount may go up or down when an assessment is revised or when it is affected by the suspension or remission of revenue due to seasonal calamity.

Term of settlement.

12. An assessment used to remain in force for whatever number of years Government fixed. In the case of the first regular settlements done before the second Sikh War in the districts south of the Beas and the Sutlej, the term in accordance with practice in the United Provinces, was generally thirty years. But in the districts to the north, which were annexed in 1849, the period was first ten, then twenty years. In time twenty to thirty years came to be generally regarded as the most suitable period, except in the new colony areas where a shorter period was required in view of their undeveloped state. With the constitutional change which followed the War, a strong demand for a longer period sprang up in the Legislative Council, and in 1928 the term of settlement was fixed by statute, for all but new canal irrigated areas, at forty years.

Objection and appeal.

13. When the assessment of a village has been announced, any landowner in the village may within thirty days petition the Revenue Officer for reconsideration of the assessment. He may also appeal to the Commissioner, within sixty days, against any order announcing the assessment or refusing to reconsider it; and, if necessary, he may appeal further to the Financial Commissioner.[1]

Yet another remedy is possible. At any time within ninety days from the announcement of the assessment, "the landowner, or, where there are more landowners than one, any of them who would be individually or collectively liable for more than half the sum assessed may give notice of refusal to be liable for the assessment." The Collector will then take possession of the estate and manage it as if its assessment had been annulled.[2]

Contractual basis of land revenue.

14. Prior to the year 1887 each estate through its headman used to make a formal tender of engagement (*darkhwast-malguzari*) to pay the demand assessed. This formality is now obsolete, but survives in the right just described. Accordingly, though

[1] Land Revenue Act, section 52.

[2] *Ibid*, section 55.

no owner of land who wishes to enjoy its possession can escape the obligation to pay land revenue unless specifically exempted, the actual assessment of the amount due takes the form of a contract binding both the Government and the landowners for the term of settlement. During this period, the total amount of the demand in the case of a fixed assessment, and the rates per unit of area in the case of a fluctuating assessment, cannot be enhanced. Government may, however, reduce the assessment of any tract affected adversely by "the action of water or sand or of calamity of season or from any other cause".[1] It may also give temporary relief by suspending or remitting the land revenue when, owing to seasonal calamity or other causes beyond the control of the landowner, he cannot pay it without great difficulty.[2] This power is freely used and its exercise is the subject of a separate note in chapter six.[3]

The Record of rights.

15. The process of assessing or re-assessing a tract to land revenue is called a settlement, and the officer in charge of the operations is called the Settlement Officer. A settlement normally takes three to four years and costs from four to five lakhs[4]. The Settlement Officer has two main duties, to revise the record of rights and to re-assess the tract. The former is of great importance, since it is the foundation of assessment and the warranty for all rights in the land. It must, therefore, be briefly described.

The record of rights has to be maintained by statute for every village in the province. This is prepared at settlement and gives the following information in respect of the village[5]:—

(*i*) the names of the persons who are landowners, tenants or assignees of land revenue in the estate, or who are entitled to receive any of the rents, profits or produce of the estate or to occupy land therein ;

(*ii*) the nature and extent of the interests of those persons, and the conditions and liabilities attaching thereto ; and

(*iii*) the rent, land-revenue, rates, cesses or other payments due from, and to, each of those persons and to the Government.

It also includes a statement of customs respecting rights and liabilities in the village, and a map of the village.

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[1] *Ibid*, section 59 (*i*) (*d*).

[2] *Ibid*, section 64.

[3] Paragraphs 114—117.

[4] The cost of the last eight settlements has averaged 4·8 lakhs.

[5] Land Revenue Act, section 31.

16. The village map is prepared by the *patwari*[1] and its accuracy is vital to the accuracy of the *jamabandi*.[2] At settlement, the Settlement Officer considers each map in turn and decides whether the village should be re-measured and re-mapped, or whether it is sufficient to make a copy of the existing map with the necessary corrections. As re-measurement is a long and costly business, the tendency is to correct the old maps. The danger of this is that errors in the original map are inevitably repeated in the copy. Also, as alienations increase, the map becomes increasingly crowded and confused.

The village map.

17. When any kind of alienation takes place, whether by sale, mortgage, inheritance, partition or gift, the alienee is obliged to inform the patwari of the fact within three months. The alienation is then recorded in what is called a mutation. In due course this is attested by the proper revenue authority, and every four years, when the record of rights comes under revision, it is incorporated in the *jamabandi*. If an alienation involves a change in the size and shape of a field, a map of the field is drawn on the mutation sheet and the copies of the village map kept by the *patwari* and in the tahsil are corrected accordingly.

Alienations.

18. The object of the quadrennial revision just referred to is to keep the record of rights up to date and to facilitate the thorough revision which is always done at settlement. Upon this repeated revision and upon the care with which it is done depends the accuracy of the village records; and, with 34,000 villages and over four million holdings, a high standard can be maintained only by the exercise of ceaseless vigilance on the part of a properly trained revenue staff. In the past this standard has been so high that it has been possible to attach a statutory presumption of truth to all entries in the record of rights. This immensely facilitates the work of the courts in dealing with disputed rights in land and prevents many disputes from coming to court at all, since the records can be easily inspected in the village and copies of entries can at any time be obtained from the local *patwari* at little cost or trouble. The record of rights thus furnishes the right holders of the Punjab with a system of land registration which for its cheapness, comprehensiveness and accessibility is probably without a parallel in any country in the world.

Accuracy of the records.

19. Settlement operations generally cover a whole district, but assessment proposals are worked out by tahsils, and each tahsil is made the

Assessment circles.

[1]The village accountant.
[2]The register of owners' and tenants' holdings.

subject of a separate report. There are very few tahsils in the province so uniform in their physical and agricultural features that a single set of rates can be applied without injustice to their whole area. A single tahsil may contain a hilly tract, a riverain area, a belt irrigated by a canal or by wells, and soils varying from clay to sand. The practice, therefore, is to divide a tahsil into large adjacent groups of villages, "sufficiently homogeneous to admit of a common set of rates being used as a general guide in calculating the land revenue to be assessed upon them".[1] These groups are called assessment circles, and their formation is of great importance, as it is the assessment circle and not the village or tahsil which provides the unit of assessment.

The produce estimate.

20. As already explained, since 1928 the land revenue demand of an assessment circle when revised may not exceed one-fourth of the estimated money value of its net assets. The Settlement Officer's most important duty is to estimate this money value as correctly as possible. Since half the cultivated area of the province is held by tenants-at-will, most of whom pay a fixed share of the produce as rent, it is the practice in the Punjab to calculate net assets on the basis of these rents and to check them by the cash rents prevailing in the circle. In doing this great care has to be taken to exclude from consideration the many uneconomic rents which some special consideration has inflated or deflated.

The produce estimate is based on a careful estimate of the following factors :—

(*a*) the average acreage of all crops sown and matured on each class of land for which it is proposed to frame separate assessment rates ;

(*b*) the average yield per acre of each of these crops, unless ordinarily subject to cash rents ;

(*c*) the average prices obtainable in the village for each of the crops referred to in (*b*) ; and

(*d*) the actual share of the gross produce received by landowners who give their land out on rent.

Cropping and yields.

21. The figures for (*a*) are taken from the revenue records of each assessment circle for a period of years specially selected (with the approval of the Financial Commissioner) to represent the normal conditions of the tract.

More difficult are the estimates of yields. These are based mainly on the Settlement Officer's local observation and enquiry, which he checks by the results of various departmental

[1]Land Revenue Act, section 3 (19).

experiments, and compares with the estimates made at the last settlement locally and in neighbouring circles. His estimates are so cautiously framed that they virtually amount to a bonus in favour of the revenue payer. This is an important point to which we return in a later chapter.[1]

Commutation prices.

22. Most difficult of all is the estimate of the prices at which the produce of the tract should be valued. The underlying principle is contained in the following rule :—

> " The prices to be adopted in the estimates shall be the average prices which are likely to be obtained for their crops by agriculturists during the coming settlement, and shall be based on the average of a sufficiently long period in the past and it shall be assumed that the rate of future prices will not be dissimilar. The prices prevailing in years of famine or severe scarcity shall be excluded."[2]

The course of prices during the whole period of the expiring settlement and, if necessary, for another five years as well, is examined with scrupulous care and prices are fixed accordingly. Until the recent depression the commutation prices, as these prices are called, were always calculated with great caution. Since then the heavy fall in prices and the complete uncertainty as to their future course have introduced a very perplexing element into the calculation. The difficulty has been met in part by the introduction of the Sliding Scale System described in Chapter 5.

The landlord's share of the produce.

23. The fourth factor, namely, the actual share of the gross produce received by the landlord, can be easily ascertained from the revenue records. It usually varies from a quarter to a half according to the means of irrigation and local custom. Certain deductions[3] are made to cover the expenses normally incurred by the landlord in obtaining his share of the produce. But no expense of cultivation not directly incurred by him is allowed. All such are covered by the tenant's share of the produce, which is the most important deduction that has to be made from the produce estimate in the calculation of net assets. This is because, as already explained[4], under the Punjab system net assets are based upon landlords' rentals and not upon owner-cultivators' profits.

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[1]Paragraph 83.

[2]Rule 4 of the Land Revenue Assessment Rules, 1929.

[3]See the definition of net assets in paragraph 68.

[4]Paragraph 8.

After working out his calculation of net assets the Settlement Officer considers what proportion should be taken as the land revenue demand, subject to the statutory limit of 25 per cent. He then submits his proposals to Government.

Fixed and fluctuating demands.

24. Land revenue may be either fixed or fluctuating. Normally it is fixed; that is to say, it does not vary during the whole period of settlement except in accordance with the rules governing progressive assessments, the exemption of improvements, diluvion due to river action, suspension and remission, etc. In the seventies fluctuating assessments were introduced. Under this system the assessment varies with the condition of the crops: if there are no crops, there is no assessment; or if they fail to mature beyond a certain point, the demand is reduced. The system suits areas where harvest conditions are very uncertain. It also appears to suit the canal colonies, where it has been widely introduced. The merits of the two systems are compared in a later chapter.[1]

Village assessments.

25. As soon as the orders of Government are received on his proposals, the Settlement Officer proceeds to distribute the assessment village by village. In the case of a fixed assessment the distribution is governed by the total demand and the standard soil rates, but the Settlement Officer is at liberty to vary the assessment brought out by the application of these rates in each village or estate, according to local circumstances, so long as—

(*a*) he does not raise the last assessment by more than two thirds in any individual estate or by more than a quarter in the assessment circle as a whole ;[2]

(*b*) he does not raise or reduce the total demand of the circle by more than three per cent.

Having announced how much each village has to pay, the Settlement Officer arranges the distribution of the demand over its holdings. This is done in close consultation with the landowners, whose wishes are given all possible weight. This privilege is greatly valued and would disappear with the application of income-tax principles. In the case of fluctuating assessments, the Settlement Officer assesses each class of land in the village at one or other of the rates sanctioned by Government, and in doing so he bears (*b*) in mind. The final distribution is embodied in a formal order under section 56 (1) of the Land Revenue Act.

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[1] Chapter 6, page 54.
[2] Land Revenue Act, section 51 (3).

26. The following figures show the land revenue demand of the province for the three years ending 1936-37 :—

Amount of land revenue.

Year.	Fixed land revenue (including service commutation).	Fluctuating land revenue.	Assigned land revenue.	Total land revenue.	Total cultivated area paying land revenue (including common land and village sites and Government property).	Average land revenue per cultivated acre.
	Lakhs. Rs.	Lakhs. Rs.	Lakhs Rs.	Lakhs. Rs.	Acres (millions)	Rs. A. P.
1934-35	236	197	35	468	30·78	1 8 4
1935-36	236	227	36	499	30·93	1 9 10
1936-37	236	218	36	491	30·99	1 9 5
Average	236	214	36	486	30·90	1 9 2

It will be seen that on the average of these three years the total land revenue demand amounts to 486 lakhs, of which 36 are assigned.[1] For fiscal purposes, therefore, it may be said that it amounts to about 4½ crores, which is forty per cent of the total provincial budget. Large as is this sum, it averages only Rs. 1-9-0 per cultivated acre.

Land revenue measured in terms of gross produce.

27. Some further figures may be given. For these three years land revenue amounted on the average to only 6·7 per cent of the gross value of the agricultural produce of the province as estimated by the Director of Land Records.[2] His estimate, however, includes nothing on account of timber, tea, fruit, vegetables and chillies, nor on account of the profits of stock breeding which, with nineteen million animals in the province,[3] must be very considerable. If income from these sources were included, the proportion would probably be not more than six per cent. Moreover, during the first two years of the triennium the depression was still acute. If we were to take the last three pre-depression years, the proportion would probably be less than five per cent.[4] Compare with this the 33 to forty per cent taken by the Sikhs a hundred years ago.[5]

The number of land revenue payers and what they pay.

28. The statement given in Appendix I shows that there are about 34 lakhs of revenue payers. On the basis of the figures given in paragraph 26 this means an average of a little over Rs. 14 a head. But this includes large owners as well as small. If we differentiate between the two, we

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[1]See paragraph 11.

[2]The estimates are as follows :—

1934-35	63·3	crores.
1935-36	69·7	„
1936-37	83·4	„
Average	72·1	„

[3]The figures for the 1935 Census are :—

Bovines	10·20	millions.
Sheep	4·42	„
Goats	4·16	„

[4]The figures are :—

1927-28	91·5	crores.
1928-29	102·1	„
1929-30	91·6	„
Average	95·1	„

These figures include nothing on account of tobacco, the value of which in the later triennium averaged over 60 lakhs.

[5]See paragraph 7.

find that roughly 24 lakhs, or about 71 per cent, pay ten rupees or less, and over fifty per cent pay five rupees or less. The former pay an average of Rs. 3-4-0 a head and the latter well under two rupees a head. These figures show, firstly, what countless small owners there are in the Punjab and, secondly, how light the charge is in their case.

The demand for revision.

29. As the result of a resolution passed by the first Legislative Council under the Montford Reforms, Government appointed a committee to examine its land revenue policy and report what changes should be made. The committee's report led to correspondence with the Government of India and action upon its recommendations was delayed. Meanwhile, in 1925, the report of the Indian Taxation Enquiry Committee appeared. This contained a review of land revenue policy, to which we would refer all who desire a clear exposition of the land revenue system in British India, and it also recommended certain general principles to be applied in future. Further deliberation followed and finally issued in the Land Revenue Amendment Act of 1928, the chief provisions of which have been given above. These have been in force too short a time to judge of either their fiscal or their economic effect. But, just as a demand for revision was the first effect of the introduction of the Reforms of 1921 so again it has been the first effect of the constitutional changes introduced a year ago, and our committee is the result. The demand, has been greatly quickened, on the one hand, by the disastrous economic effects of the fall in prices and, on the other, by the general awakening that is taking place in the village, the first signs of which were noted in a book which appeared in 1925.[1] This new spirit demands that the burden of taxation shall be borne by all classes of the community equally in terms of their capacity to pay. It demands further that the agricultural resources of the province should be developed so that every cultivator may be secured a reasonable standard of living and be given in his village the essential amenities of civilized life. The first demand would seem to involve a reduction in land revenue, and the other an increase in expenditure. This is the crux of the problem that we have been commissioned to examine, and to quote the Government of India Review on Land Revenue policy in 1902, "the question may be recognized as one of the highest national importance, transcending the sphere of party or sectional controversy, and demanding at once the most exhaustive scrutiny and the most liberal treatment."[2] It is in this spirit that we have approached our difficult task.

[1] M. L. Darling, *The Punjab Peasant in Prosperity and Debt*, 1st edition, page 289.

[2] *Op. cit.*, page 2.

CHAPTER 2.

Income-tax Law and Practice.

Historical.

30. Income-tax was first introduced into British India in 1860 to meet the financial consequences of the Mutiny. It applied to all incomes, agricultural as well as non-agricultural, but the Act, which was modelled on the English law, did not suit Indian conditions and lapsed in 1865. It was followed by no less than 23 Acts all trying in their different ways to adjust the burden of taxation between the landed, trading and professional classes. Comparative stability was reached in 1886, and the Act passed in that year remained in force until 1918, when the changes necessitated by the war led to further legislation ending with the Act of 1922. This is still in force, but the financial pressure due to constitutional change has once more brought income-tax law and practice under review, and the result is the Bill recently introduced into the Central Legislative Assembly.

Former Rates.

31. Under the Act of 1860, all incomes and profits from Rs. 200 upwards were taxed, at two per cent up to Rs. 5,000, and at four per cent above that. The minimum limit was raised to Rs. 500 in 1862, to Rs. 750 in 1871, and to Rs. 1,000 in 1872. The Act then in force lapsed in 1873 and was followed by various License Tax Acts taxing occupations instead of incomes. Then came the Income-tax Act of 1886. This made a clean cut with the past and taxed incomes from Rs. 1,000 to Rs. 2,000 at four pies in the rupee and incomes above Rs. 2,000 at five pies. These rates remained in force until 1916 when the financial necessities of the war led to an increase. In 1922 it was decided that the rates should be fixed each year by a Finance Act in accordance with financial need and exigency.

Present rates.

32. The following rates are now in force :—

[*Income-tax.*]

On incomes between—	RATE OF TAX. *pies in the rupee (plus in every case a surcharge of 1/12th).*
Rs.	
2,000 and 5,000	6
5,000 and 10,000	9
10,000 and 15,000	12
15,000 and 20,000	16

[*Income-tax*—concld.]

On incomes between—	RATE OF TAX. *pies in the rupee (plus in every case a surchage of 1/12th).*
Rs.	
20,000 and 30,000	19
30,000 and 40,000	23
40,000 and 1,00,000	25
Incomes over 1,00,000	26
Supertax.	
Incomes up to 30,000	*Nil.*
Incomes exceeding 30,000 up to 50,000 ..	9
Next 50,000 up to 1,00,000	15
,, ,, ,, 1,50,000	21
,, ,, ,, 2,00,000	27
,, ,, ,, 2,50,000	33
,, ,, ,, 3,00,000	39
,, ,, ,, 3,50,000	45
,, ,, ,, 4,00,000	51
,, ,, ,, 4,50,000	57
,, ,, ,, 5,00,000	63
,, ,, ,, 5,50,000	69
,, ,, ,, 6,00,000	75

The exemption limits for supertax in the cases of companies and Hindu undivided families are Rs. 50,000 and Rs. 75,000, respectively, and in the case of companies a flat rate of one anna in the rupee is applied to all income in excess of Rs. 50,000.

Yield.

33. The yield from income-tax amounted to only 1·6 crores in 1891-92 and three crores in 1914-15, but by 1918-19 it had risen to eleven crores, and in 1921-22 it touched its highest point—twenty-two crores. It now produces about seventeen crores. In the Punjab it rose from forty-four lakhs in 1918-19 to seventy lakhs in 1936-37. In the three years ending 1935-36 another seven lakhs on the average were collected each year from those with incomes of less than Rs. 2,000. Income-tax has thus come to acquire a permanent place in the finances of the country and about twenty per cent of the revenues of the Central Government are derived from it.

Agricultural income.

34. Originally income from agriculture was liable to income-tax except in the case of those who cultivated land the rental value of which was less than Rs. 600 a year. The License Tax Act of 1867, which replaced the Income-tax Act of 1862, applied to persons carrying on any profession or trade, but cultivators were exempted in respect of all produce not sold in a shop. After some vicissitudes practice finally crystallized in the Act of 1886. This exempted all purely agricultural income, which was defined as being—

> "(*a*) any rent or revenue derived from land which is used for agricultural purposes and is either assessed to land revenue or subject to a local rate assessed and collected by officials of the Government, as such, or,
>
> (*b*) any income derived from—
>
> (*i*) agriculture, or
>
> (*ii*) the performance by a cultivator or receiver of rent in kind of any process ordinarily employed by a cultivator or receiver of rent-in-kind to render the produce raised or received by him fit to be taken to market, or
>
> (*iii*) the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him, when he does not keep a shop or stall for the sale of such produce."

The exemption and definition are still in force. The Income-tax Enquiry Committee of 1935 recommended that "the agricultural income of an assesee should be taken into account in fixing the amount of tax payable on his other income,"[1] but this has not been provided for in the new Income-tax Bill.

Administration of the Act.

35. There was much diversity of practice in different provinces until 1886 when some measure of uniformity was introduced. But it was not till 1922 that provincial Governments were relieved of the duty of assessment and the Central Government took over the whole income-tax administration, creating the present Central Board of Revenue[2] for the purpose.

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[1] *Income-tax Enquiry Committee Report*, 1936, page 7.

[2] It was at first called the Board of Inland Revenue.

The different classes of assessees.

36. Income-tax is a tax upon persons, and so far as possible, assessments are made on a *personal* basis. For this purpose assessees are divided into the following classes :—

(1) Individuals.

(2) Hindu undivided families.

(3) Firms (registered and unregistered).

(4) Companies.

(5) Other associations of individuals.

Individuals are assessed on their total income from all sources. An unregistered firm is treated as a separate entity and assessed as an individual, but, in pursuance of the policy of individual assessment, it can be registered, and if this is done, each member of the firm can claim assessment on his share of the firm's income at the rate appropriate to his total income. A company is a corporate body and is assessed at the maximum rate of tax ; but, again in pursuance of the policy of individual assessment, every share-holder in the company is entitled, if not otherwise liable to pay tax at the maximum rate, to a refund, on his dividends, of the difference between the amount payable at the maximum rate and the amount payable at the rate applicable to his personal income. The only assessees taxed jointly or collectively are Hindu undivided families and " Associations of individuals ", which last are most uncommon. Hindu undivided families form a separate class and are assessed as individuals. This is tending, in some degree, towards their disruption, since it often pays members to be assessed individually rather than collectively. On the other hand Hindu undivided families are exempt from supertax up to Rs. 75,000 instead of Rs. 30,000.

Determination of net income.

37. Assessments are made annually on the basis of the net income of the *previous* year. This is done to avoid the cumbrous procedure of adjustment involved in assessment on the basis of the current year's income. Net income is determined by deducting all necessary expenses incurred in earning that income. For example, in assessing interest on securities collection charges are deducted. In the case of house property, one-sixth of its rental value is allowed for repairs irrespective of the amount actually spent, as well as collection charges, insurance premia, and the interest on any mortgage to which the property is subject. Depreciation is allowed on machinery, buildings, and professional implements, and rebates on life insurance premia and provident fund contributions. But no allowance is ever made for any labour or supervision done by the assessee or any member of his family.

Exemption.

38. The exemption limit, after starting at Rs. 200 in 1860, was raised by successive stages to Rs. 1,000 in 1872. We have been unable to discover the reasons for this and can only suppose that the lower limits proved administratively inconvenient. In 1919 the limit was raised to Rs. 2,000 and after being reduced in 1931 to Rs. 1,000, was raised again in 1936 to Rs. 2,000, which is considered to be 'not too low a figure for the point at which liability should commence'.[1] An essential consideration in this connexion is the harassment and expense involved in a low exemption limit.

The incomes of charitable and religious trusts, educational institutions, and local authorities are also exempt; so, too, agricultural income, and casual and non-recurring receipts.

Graduation of tax.

39. Though the principle of administrative convenience enters largely into the fixing of the exemption limit, once this limit is fixed the main consideration is 'ability to pay'. Hence the graduated scale of rates given in paragraph 32. In furtherance of the same principle, the Income-tax Enquiry Report recommended the introduction of the 'slab' system, which already governs the assessment of supertax. This involves the application of progressive rates to successive slices of income, with an untaxed slice of Rs. 1,500. To take a concrete case, an income of Rs. 6,000 will be assessable thus. The first Rs. 1,500 will be exempt. The next slice of Rs. 3,500 will pay the rate applicable to incomes not exceeding Rs. 5,000, and the remaining Rs. 1,000 the next higher rate. On the other hand under the present 'step' system, the entire income is assessed without any abatement whatever. If the 'slab' system is adopted, the lower ranges of income will benefit and the higher suffer.

The principle of 'ability to pay' is ignored in one important respect. No relief is provided on account of wife or children. The larger a man's family, therefore, the heavier the incidence of the tax upon his surplus.

Minor principles—

(a) Set off of losses.

40. Three minor principles may be noted. Firstly, all business losses of an assessee, irrespective of source, can be set off against his total profits in arriving at his net income. But the losses of one year cannot be set off against the profits of another year. The new bill, however, allows losses to be carried forward six years, if necessary.

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[1] *Income-tax Enquiry Committee Report*, 1936, page 13.

(b) Rebates and reliefs.

Secondly, rebates are allowed on life insurance premia and provident fund contributions up to one sixth of total income. If, too, the total income of an assessee is not liable to tax at the maximum rate, then, as already stated, he is allowed a rebate on all income from investments taxed at source at the maximum rates.

(c) Depreciation.

Thirdly, depreciation is allowed each year at the prescribed rates on machinery and buildings used for business purposes and on professional implements and if the deduction due on this account exceeds the profits in any year, the balance is carried forward from year to year, until finally absorbed.

The method of assessment.

41. The assessment of salaried persons presents comparatively little difficulty. Lists of those liable to assessment are obtained from the disbursing officers, and if they have any other income besides salary, the necessary action is taken. In other cases, where individuals or firms are concerned local enquiries have to be made on an extensive scale to ascertain who may be liable to assessment and to prevent income escaping assessment. The enquiries necessitate the employment of a large staff of Inspectors and the examination of innumerable registers and accounts. When the necessary preliminary information has been obtained, the Income-tax Officer issues a statutory notice to all persons, other than companies, who in his opinion have or may have, assessable income, requiring them to furnish a return of their income in the prescribed form by a fixed date. Companies are obliged to furnish the necessary return without notice by the 15th June each year. On the receipt of a return of income the Income-tax Officer assesses the person concerned accordingly, if he holds the return to be correct ; otherwise, only after examination of his accounts. If a return is not furnished or if accounts when called for are not produced, he is empowered to make an assessment to the best of his judgment, and in that case there is no appeal. If again the income from business cannot be worked out correctly from the return and the accounts, he estimates it by applying to the turnover the standard rate of profit for that type of business. The same method is employed when no accounts exist, and in that case the turnover has also to be estimated.

42. The table below, which relates to incomes of over Rs. 2,000, shows to what extent these different systems are used in the Punjab :—

The number of assessees with incomes over Rs. 2,000.	Number of assessees and of returns issued (excluding salary cases).	Returns filed.	Percentage of column 3 to column 2.	Returns accepted as correct.	Percentage of column 5 to column 3.	No. of assessments based on accounts over accounts produced.	Percentage of accounts accepted to accounts produced.
	2	3	4	5	6	7	8
..	23,726	18,156	77	3,808	21	10,407	64
						16,122	
..	26,189	19,006	73	819	4	4,487	28
						15,826	
..	27,322	19,987	73	1,119	6	6,001	35
						16,855	
..	32,493	23,719	73	1,940	8	8,675	43
						20,333	
..	27,432	20,217	74	1,922	10	7,393	43
						17,285	

r assessments made to the best of the Income-tax Officer's judgment are not available in the annual returns

It will be seen that 26 per cent file no return, that ninety per cent of the returns cannot be accepted as correct and that even when accounts are produced assessment cannot be based upon them in even half the number of cases.

The number of assessees with incomes below Rs. 2,000.

43. The table below gives corresponding figures for assessees with incomes below Rs. 2,000 for the three years during which they were assessed :—

Year.	Total number assessed (other than salary cases).	Returns issued.	Returns filed.	Percentage of column 4 to column 3.	Returns accepted as correct.	Percentage of column 6 to column 4.	Number of assessments based on accounts over accounts produced.	Percentage of accounts accepted to accounts produced.
1	2	3	4	5	6	7	8	9
1933-34 ..	33,922	7,302	5,602	76	968	17	2,481 / 4,897	51
1934-35 ..	37,404	5,342	3,206	60	344	11	1,939 / 9,283	21
1935-36 ..	33,991	6,353	3,880	61	243	6	1,310 / 5,680	23
Average ..	35,105	6,332	4,229	67	518	12	1,910 / 6,620	29

It will be seen that in this case one out of every three assessees filed no returns, and that more than two out of every three produced no accounts.

Assessment of incomes below Rs. 2,000

44. In these cases, to save expense, the assessment procedure was greatly simplified. Initial assessments were made summarily by the Income-tax Officer, and the assessee was informed of the result by notice. He was given a month within which to [illegible]. If he objected in time and submitted a return of income,

Such cases can, however, be revised by the Income-tax Officer if the assessee shows sufficient cause for the default which led to his arbitrary assessment. The new Bill proposes to make arbitrary assessments appealable.

The following table, which relates to incomes of over Rs. 2,000, shows how far assessees appeal :—

Year.	Assessees.	Appeals.	Percentage.	Reviews.	Percentage.
1933-34	23,726	2,909	12	496	2
1934-35	26,189	3,655	14	408	1·5
1935-36	27,322	4,718	17	593	2·2
1936-37	32,493	4,835	15	976	3
Average	27,432	4,029	14·6	618	2·2

It will be seen that only about fifteen per cent appeal. The corresponding figures for assessees with lower incomes is much less, viz., four per cent. The fact that assessments can be enhanced on appeal no doubt acts as a deterrent.

Penalties.

46. If at any stage of his assessment an assessee is found to have concealed or deliberately understated the particulars of his income, he can be fined or prosecuted. A penalty not exceeding the tax due may also be imposed if the tax is not paid in time.

Staff maintafned in the Punjab.

47. The following staff is maintained in the Punjab :—

	Pay.
Commissioner ..	If a member of the Indian Civil Service, Rs. 2,000—100—2,500, otherwise Rs. 1,600 (revised scale).
	Rs.
4 Assistant Commissioners[1] ..	1,000—100—1,500.
32 Income-tax Officers[2] ..	300—40—850.
38 Inspectors ..	120—7/8—240.

Cost of collection.

48. It only remains to add that the cost of collecting the tax in the Punjab is about ten per cent in the case of incomes of over Rs. 2,000. For lower incomes, it averaged 12½ per cent during the three years of their assessment.

[1]The number of Assistant Commissioners is five, but one has been deducted on account of the North-West Frontier and Delhi Provinces, which are within the Commissioner's charge.

[2]Excluding 3 officers employed on salary cases.

CHAPTER 3.

Can Income-tax principles be applied to the Land Revenue System ?

The Committee's terms of reference.

49. We may begin this chapter by quoting the first of our terms of reference. This runs as follows :—

> " Whether a practicable scheme can be devised by which the principles of income tax assessment can be applied to the assessment of land revenue, and in particular whether all or any of the following incidents of income-tax assessment are capable of adoption :—
>
> (*a*) A minimum below which the net assets of land shall not be liable to assessment.
>
> (*b*) A yearly estimate of net assets for every revenue payer.
>
> (*c*) A graduated scale of assessment, the rate increasing with net assets.
>
> (*d*) A special rate of assessment on incomes exceeding a certain sum, on the analogy of the supertax.
>
> (*e*) Liability of the rates of assessment to vary from year to year according to legislation embodied in a Finance Bill."

Various schemes have been put before us is in evidence. All provide for (*a*), (*b*) and (*c*), and none would give effect to (*d*). Opinion was undecided in regard to (*e*), but on the whole in favour of it.

The schemes vary greatly as to what the minimum should be under (*a*). Some, on the analogy of the income-tax system, would put it at Rs. 2,000; but no one would put it below Rs. 250, and most put it at either Rs. 500 or Rs. 1,000.

Ratio of land revenue to income.

50. Since land revenue, when re-assessed, is now limited to 25 per cent of net assets, and since, in the case of a landowner who gives his land out on rent, net assets correspond closely with the income-tax conception of net income, it may be broadly stated that the net income of a landlord, in a district re-assessed since 1928, is four times the amount of his land revenue. It will be more in the case of an owner who farms his land, for the profits of cultivation as well as rent will have to be taken into consideration. And it will be still more in the case of an owner who cultivates his land with his own hands, since, as already pointed out,[1] the value of his labour and of that of his family cannot be allowed as a deduction, whereas, in the calculation of net assets.

[1]Paragraph 37.

they are indirectly taken into account[1]. The point, however, would only be of importance with a very low exemption limit, since it is only the smaller owners who cultivate their land with the help of their families. The proportion of one to four will doubtless vary from tract to tract as the province has not been assessed upon a uniform basis, but for the purpose of this chapter we propose to base our calculations upon it. We shall assume, therefore, that, with an exemption limit of, say, Rs. 1,000, no one who pays up to Rs. 250 land revenue will be assessable unless (*a*) he has other income, or (*b*) he either farms or cultivates his own land.

How far assessment is possible on the basis of accounts.

51. All the schemes postulate that assessment would in general be made on the basis of accounts. How far this will be practicable will depend upon the exemption limit. If the limit were Rs. 2,000, it should be more or less feasible; not only would the number of assessees then be comparatively few, probably no more than 3,000, but they would belong to a class of landlords most of whom employ an agent or a clerk to keep some account of their gross, though not of their net, agricultural income. If the minimum limit were Rs. 1,000, the number of assessees would rise to well over 10,000; and if it were reduced to Rs. 500, it would be in the neighbourhood of 60,000.[2] With this limit, if not with a limit of Rs. 1,000, assessment on the basis of accounts would be impossible, since, apart from the larger landlords, the number of landowners who keep accounts is negligible. Even with income-tax and with a limit of Rs. 1,000, 81 per cent of the assessees with incomes of less than Rs. 2,000 produced no accounts.[3] With the same limit for landowners, the proportion would probably be well over ninety per cent.

The difficulty of illiteracy.

52. Unless, therefore, the limit was at least Rs. 1,500, it would be out of the question to assess generally on the basis of accounts. Some of the more ardent advocates of the income-tax system believe that its application would compel assessees to keep accounts, and that meanwhile they could get them kept for them either by the local *patwari* or by some literate neighbour. We believe both ideas to be chimerical. At the last census literacy was confined to less than ten per cent of the population, and it is spreading far too slowly for the keeping of accounts to become general, even amongst medium landowners, in the near future.

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[1] See definition of net assets in paragraph 68.

[2] These estimates assume an addition of twenty per cent for marginal cases, see paragraph 58.

[3] See table in paragraph 43.

As to invoking the assistance of a *patwari* or neighbour, accounts kept in that way are not likely to be reliable and the services will have to be paid for, which will not add to the popularity of the scheme. The experience of Bulgaria is significant in this connexion, particularly as it is a country of small peasant proprietors in many respects resembling the Punjab. In 1921 the land tax was abolished in favour of an income-tax, but was reintroduced in 1923 as the peasants did not declare their incomes.[1] Yet sixty per cent of them can read and write.[2]

Probable loss of revenue.

53. Whether the exemption limit could be high enough to make assessment on the basis of accounts general possibly depends upon fiscal considerations. We have dealt with these in our Chapter on exemption,[3] and all we need say here is that a limit of Rs. 200 (Rs. 50 land revenue) would probably involve the loss of at least 2½ crores of land revenue, and a limit of Rs. 2,000 all but thirty or forty lakhs out of 4½ crores. These figures speak for themselves.

The United Kingdom system.

54. Accounts, however, are not indispensable to the application of income-tax principles to the assessment of agricultural income. The United Kingdom income-tax system is an example of this. Agricultural income there is divided into two parts :—

(*a*) income from the *ownership* of land and agricultural buildings ; and

(*b*) income from the *occupation* of such land and buildings.[4]

An owner of agricultural land pays income-tax on the annual value (after deducting certain expenses such as repairs borne by the owner) at which this land can be let, annual value being determined by the rent paid when the land is let to a tenant. The person occupying the land, whether owner or tenant, has to pay income-tax, in respect of his occupation, on a figure equal to the annual value (*before* deducting the expenses referred to above), subject to the following exceptions :—

(*a*) If, by producing accounts, he can show that his actual net income from the land after paying his rent is less than the annual value, he can claim to have the assessment reduced accordingly.

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[1]Note G, paragraph 5.

[2]Tiltman, *Peasant Europe*, 1934, page 90.

[3]Chapter 8.

[4]Income from the ownership and occupation of other lands and buildings is also dealt with separately.

(*b*) Income from the occupation of nurseries and market-gardens is never assessed on their annual value but always on the basis of the actual profits made, and for this purpose accurate accounts must be maintained.

(*c*) Certain lands, e.g., woodlands, which in the United Kingdom are not regarded as being occupied for the purpose of husbandry, are assessed not on their full annual value but upon one-third of it, provided that, if whoever occupies them proves that they are managed on a commercial basis for profit, he may elect to be charged on the actual profits made.

The whole position may be illustrated by a concrete case. If land is let to a tenant for Rs. 5,000 and this is a fair rent, its annual value will be Rs. 5,000. The assessment on the owner, after deduction of the allowable expenses, may be on Rs. 4,200; the assessment on the occupier, on the basis of annual value, will be on Rs. 5,000; but if, for example, he has made a profit of only Rs. 1,500, he may claim to be assessed on Rs. 1,500 instead. If the owner is also the occupier, he will be assessed on Rs. 4,200 as owner, and on Rs. 5,000 as occupier or tenant, the latter figure being reducible, if desired, to the actual profit made.[1]

Its possible application to the Punjab.

55. If this system were applied to the Punjab, the rental value of all land would have to be ascertained. This could be done without inherent difficulty at settlement, for land revenue at present is a rough proportion of the produce estimate, which is based upon the total rental value of all land contained in an assessment circle. The produce estimate would continue to be calculated as at present, and rental rates based upon that estimate would be fixed for every class of land in the circle, and applied to each holding in every estate with the necessary modifications to suit local conditions. Rental values would have to be periodically revised, but probably not oftener than once every twenty years, provided assessees had the right, from time to time, to apply for revision. The exercise of the right might be limited to once in four years when the records of their village automatically came under revision.

Ascertainment of non-agricultural income.

56. This would involve replacing land revenue by a tax on agricultural income; and if income tax principles were strictly followed with its graduated rates, non-agricultural income would have to be ascertained in order to

[1]For this information we have to thank Mr. S. P. Chambers, Advisor to the Central Board of Revenue.

decide the appropriate rate of tax. How far this would lead to complication would depend upon the exemption limit. The lower the limit, the greater the complication and the more elaborate the enquiries. This is a further argument for a comparatively high limit.

The exemption limit.

57. We have said that this limit would have to depend largely upon fiscal considerations. One of these considerations is the popular demand that it should not differ widely from the ordinary income-tax limit. Those who advocate a limit of Rs. 2,000 would like both limits to be identical. If others put the limit lower, it is partly because they wish to make the application of income-tax principles more feasible, and partly because they realize that agricultural income, deriving from land which has permanent value, is more desirable than non-agricultural income, which largely derives from more ephemeral sources. If the provincial Goverment could devise some means, consistent with the Government of India Act, of taxing non-agricultural incomes between Rs. 1,000 and Rs. 2,000 most advocates of the income-tax system would probably be in favour of a limit of Rs. 500 for agricultural income; and of Rs. 250 if non-agricultural incomes could be taxed down to Rs. 500. But even so, the loss of land revenue would be about $2\frac{3}{4}$ crores.

The number of assessees.

58. The suggested change of system is bound to involve serious administrative difficulties; how serious, it is difficult to say without knowing the exemption limit. In view of fiscal considerations, we assume that it could not possibly be lower than Rs. 200, which would mean a limit of about Rs. 50 in terms of land revenue. This would involve assessing about 150,000 persons; but if farming profits[1] and income from other sources had to be taken into consideration, following ordinary income-tax practice another twenty per cent would have to be added to the estimate for marginal cases. This would make 180,000 assessees[2] in all, or an average of over 6,000 a district. This is more than six times the total number of income-tax assessees (excluding salary cases) in the province, and more than three times their number when the exemption limit was Rs. 1,000.[3]

Cost of assessment.

59. For administrative purposes the Income-tax Department assumed that four assessees in the Rs. 1,000—2,000 grade were equal to one assessee in the higher grade. On the same basis we may assume

[1] See paragraphs 50 and 54.

[2] In income-tax parlance an assessee is a person who is the subject of an assessment order whether the order results in taxation or not.

[3] See paragraphs 42 and 43.

that four agricultural assessees are equal to one non-agricultural assessee as at present taxed: 180,000 agricultural assessees will then be equal to 45,000 ordinary non-agricultural assessees. For about 26,000 of the latter the staff shown in paragraph 47 is employed at a cost of 7½ lakhs. For 180,000 agricultural assessees, therefore, a much larger staff will be required. This can hardly cost less than twelve lakhs.

As against this it might be possible to make some reduction in the establishment of the Land Revenue Department owing to the change in the method of assessment, but this could not be very considerable as most of the present staff will be required for the maintenance of the land records, the abolition of which no one urges.

Marginal cases and the number of assessees.

60. We have taken the number of marginal cases to be 30,000. In case this is thought too high, we would point out that about 60,000 owners pay between forty rupees and fifty rupees land revenue; that is to say, have an income of from Rs. 160 to Rs. 200. With a Rs. 200 limit, many of these may from time to time be assessable, through either buying land or taking it on mortgage or through their earnings from other sources. Enormous sums in the aggregate reach the village every year from outside. In 1928-29 the province received 139 lakhs from military pensions apart from pay.[1] About the same time emigrants from Jullundur and Hoshiarpur were remitting eighteen lakhs a year through a single bank,[2] and even now landowners in Jhelum are said to receive at least thirty lakhs a year from outside military sources. Then there is a host of agriculturist money-lenders, estimated in 1932 at 19,000.[3] All these sources of income would have to be taken into consideration for assessment purposes, and their effect might very well be to raise the number of assessees to 200,000 at yet greater cost to Government.

Loss due to graduated rates.

61. Our estimate of the staff required assumes that annual assessments will be made. To make them at longer periods, say, every four years, would involve an important departure from income-tax principle, and if at the same time rentals were estimated every twenty years or so, the system would be more analogous to land revenue than to income-tax. The application of income-tax principles presumes further that

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[1] *Punjab Banking Enquiry Committee Report*, page 362.

[2] *Op. cit.*, page 144.

[3] *The Punjab Peasant*, *op. cit.*, page 208.

assessment rates will be graded, the rate rising with income. If they approximated at all closely to existing income-tax rates[1] there would be a further heavy loss of revenue. At present, as explained above,[2] the ordinary landowner may be taken as paying about 25 per cent of his net income as land revenue. The table given in paragraph 32 shows that this is a much higher proportion than is paid by most income-tax assessees. It follows, therefore, that any approximation in rate between the two forms of income-tax is bound, apart from any question of exemption, to involve Government in a heavy loss of revenue. If, for example, this resulted in the average rate being reduced by a half, i.e., from four to two annas in the rupee, which would still be a high rate in terms of income tax, it would mean a further loss of about 86 lakhs.[3] Added to the $2\frac{1}{2}$ crores mentioned above, this would make a total loss of about 360 lakhs, and less than a crore would remain out of the $4\frac{1}{2}$ crores of land revenue.

62. Some may urge that to reduce this loss to more manageable proportions, the limit should be lowered below Rs. 200. It would then be a case of out of the frying pan into the fire; for we should at once get an enormous increase of assessees, about 60,000 if we went down to Rs. 160 (forty rupees land revenue), and 154,000 if we went down to Rs. 120 (thirty rupees land revenue). The difficulty of the problem lies in the fact that an impossible loss of revenue can only be avoided by taxing an impossible number of assessees. We are between the devil and the deep sea, and the only conceivable way out of the dilemma, consistent with the principles of income-tax, is to abolish land revenue and supplement the direct tax on agricultural income by a heavy indirect tax on agricultural produce. We have considered the possibilities of this in a later chapter,[4] but for the reasons given therein we are not in favour of it.

Maintenance of registers.

63. Assuming that the number of assessees does not exceed two lakhs and that the expenditure involved is not a vital objection, we consider that administratively the scheme suggested above is just practicable though entirely undesirable. Each district will have to maintain a register of all persons assessed in it, showing for each landowner the amount of land, together with its rental value, owned not only in the district but outside it. A register will also have to be maintained of all landowners who are assessable in another district, and all changes in the land owned by them will have to be communicated to the district of residence.

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[1] These are given in paragraph 32.

[2] Paragraph 50.

[3] The land revenue payable by those who pay over fifty rupees amounts to about 173 lakhs.

[4] Paragraphs 213 to 224.

Method of assessment.

64. Every year, after due enquiry, a list of those who appear to be assessable would have to be sent to the headman or *patwari* of each village where assessees reside. The headman or *patwari* would be required to post the list in the village and inform all concerned of their proposed assessment. The latter would be given a fixed period of, say a month within which to file objections. The procedure would then be the same as that described in paragraph 41. The preliminary enquiries which would be indispensable for the preparation of the list would have to be done by a special staff, unless the number of assessees was so limited that it could be done by the local *patwari* under the supervision of the *tahsil* staff. Objections would be heard by the Revenue Assistant and appeals by the Collector, or by officers of corresponding status belonging to the special staff that would be needed in most districts. A power of revision would rest with the Commissioner.

For those whose incomes exceeded Rs. 2,000, who would mostly be persons paying over Rs. 500 land revenue, the procedure should be less summary and might follow the lines of normal income-tax procedure.

Employment of panchayats and patwaris in assessment.

65. Some of our witnesses, in their enthusiasm for income-tax principles, recommended as an economy that a *panchayat* should be established in every village, if not for the purposes of actual assessment at least to advise the assessing authority, which they suggested should be the *patwari*. We are convinced believers in the importance of establishing village *panchayats* wherever there is any hope of their being a success, but it is common knowledge that in thousands of villages faction makes their establishment on sound lines a matter of extreme difficulty. Nor can anyone who remembers the way the *panchayat* system used to work before the assessment of income-tax was centralized, believe that its extensive use in the manner suggested could have any other result than to help the more influential at the expense of their neighbours. As to the *patwari*, we cannot imagine any more effective way of spreading corruption than to employ him prominently in work of this kind.

Attitude of landowners.

66. The feature of the income-tax system which makes the widest appeal is the exemption limit. If there were no limit, it may be safely said that few landowners, if any, would press for the adoption of income-tax principles. The popularity or otherwise of their adoption with each landowner will depend almost entirely upon whether he stands above or below the limit. If he is so far below it that he is not subjected to any enquiry or called upon to submit a return of income, he will bless the change. But if

he stands on the wrong side and has to pay much the same as before, he will probably curse a system which will be unintelligible to him and which will involve him in all the trouble and uncertainty incidental to income-tax assessment in the village. Even if he pays considerably less than he pays at present owing to lower rates, he may easily feel that he is paying too high a price for the change. The income-tax system may suit the town with its trade, industry and investments, but it is certainly not suited to a peasantry largely illiterate, without accounts, and intensely conservative. This view is strongly reflected in the evidence led before us by representative landowners in almost every district we visited. In other countries, too, the taxation of land is apparently kept quite separate from the levy of income-tax.[1]

Recommendation.

67. We have, therefore, no hesitation whatever in recommending the continuance of the present system with the modifications explained in Chapters four to eleven. One of the modifications relates to the sliding scale system, which is the subject of Chapter five. This system presents some slight analogy to the income-tax principle of yearly assessments of net income. We have also recommended a modified form of graduation. These are the only concessions to income-tax principles that we recommend.

[1]Paragraph 2 of Sir Edward Maclagan's opinion, page 170.

सत्यमेव जयते

PART II—Improvement in the Land Revenue System.

CHAPTER 4.

Net Assets.

Definition of net assets.

68. The feature of the present system upon which criticism has mainly concentrated is the definition of net assets given in section 3 (18) of the Land Revenue Act, XVII of 1887, as amended by the Punjab Act III of 1928. This definition runs as follows :—

> "Net-assets" of an estate or group of estates means the estimated average annual surplus produce of such estate or group of estates remaining after deduction of the ordinary expenses of cultivation as ascertained or estimated.

Explanation.—Ordinary expenses of cultivation include payments if any, which the land-owner customarily bears whether in kind or in cash either in whole or in part in respect of—

(1) water rates,

(2) maintenance of means of irrigation,

(3) maintenance of embankments,

(4) supply of seed,

(5) supply of manure,

(6) improved implements of husbandry,

(7) concessions with regard to fodder,

(8) special abatements made for fallows or bad harvests,

(9) cost of collection of rent,

(10) allowance for shortage in collection of rent,

(11) interest charges payable in respect of advances made in cash, free of interest, to tenants for the purpose of cultivation,

(12) wages or customary dues paid to artisans or menials whose products or labour are utilized for the purposes of cultivation and harvesting,

and the share that would be retainable by a tenant if the land were let to a non-occupancy tenant paying rent, whether in cash or in kind, at the normal rate actually prevalent in the estate or group of estates.

Landlord's net assets.

69. The effect of the definition is that the net assets of a tract represent what the land of the tract might ordinarily be expected to fetch in rent less all costs incurred in earning that rent. In other words, net assets and normal rent less these costs are synonymous, and so defined they may be briefly called landlords' net assets.

It should be noted that the rent contemplated in this case is not a cash rent but a fixed share of the produce. The reason for this is that, as explained in paragraph 73, produce rents are much more common than cash rents.

Owner-cultivator's net assets.

70. Since land revenue is a charge payable by the landowner, there could be no objection to this definition if all landowners, or the large majority, let their land out on rent. But in the Punjab, although 58 per cent of the cultivated area of the province is farmed by tenants[1], the majority of the proprietors, being small holders, cultivate their own land. It is urged, therefore, that it would be fairer to the owner-cultivator if net assets were defined in terms of the profits of direct cultivation: if, that is to say, they were regarded as the gross produce minus the cost of production, including in the latter a fair return for the enterprise and labour of the cultivator. Defined in this way net assets may be called owner-cultivators' net assets as opposed to landlords' net assets. This is the way they are defined in Madras, apparently because "rents are too few to be employed as standards".[2]

Professor Brij Narain's view.

71. It is urged further that the present definition is positively unfair to the owner-cultivator, since (so it is alleged) rents in the Punjab are not economic, but contain an element of rackrenting. This view was forcibly expressed by Professor Brij Narain, Professor of Economics, Sanatan Dharm College, in a written statement which he submitted to us on behalf of the Institute of Agrarian Reform, Lahore. The following passage may be quoted:—

> "The non-cultivating landlord is able to exploit the tenant because of the constantly growing pressure of population on the soil. Land is scarce relatively to demand, and there are no alternative means of earning a livelihood for the tenant class. Under such conditions it is not sure prising that the landlord's share should contain a large element of loot. Government's land revenue is a share of this loot."[3]

Definition of economic rent.

72. The question whether the present system is fair to the owner-cultivator resolves itself briefly into the question whether rents in general are economic. In his *Principles of*

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[1]Just under fifty per cent by tenants-at-will: the figures are for 1936-37. The area is large because (according to an enquiry made in 1923) 61 per cent of the cultivated area of the province belongs to only fifteen per cent of the owners (*Punjab Board of Economic Enquiry, Rural Publication No. 4*, page 3).

[2]*Imperial Gazetteer of India*, IV, 219.

[3]*Land Revenue Reform in the Punjab* published by the Institute of Agrarian Reform, Lahore, page 10.

Economics Bye defines economic rent "as a payment measuring the difference between what labour and capital produce upon better lands and what they produce at the margins of cultivation". This definition Professor Brij Narain accepts, his own definition being that economic rent is the surplus remaining over after the costs of cultivation have been defrayed. These costs include a return to the cultivator and his family for all labour put into cultivation, and according to Professor Brij Narain this should be valued at what the permanently hired labourer can earn in the neighbourhood for similar work.

The *batai* system of rents.

73. In the Punjab about three quarters of the area cultivated by tenants-at-will is leased on the *batai* system ;[1] that is to say, in return for a fixed share of the produce. For the purpose of this chapter, therefore, cash rents may be ignored, especially as they are often affected by adventitious circumstances. It is well to remember, too, that though *batai* rates differ from district to district and also with the means of irrigation, they have a strong customary basis and do not appear to have changed much in the last twenty or thirty years. It is a strong point of rents paid in kind that, so far as prices are concerned, they show a much greater elasticity than cash rents, since they automatically rise and fall with prices. It was owing to this that relations between landlord and tenant were much less seriously affected in the Punjab by the catastrophic fall in prices than in the United Provinces, where cash rents are the rule.

Relation of costs to income when agricultural prices fall.

74. It has also greatly mitigated the maladjustment between income and expenditure which inevitably follows an abrupt fall in prices. This maladjustment is due to costs, so far as they are in cash, falling less rapidly than income. The point is dealt with at length in Part VI of Note A.[2] Owing partly to the *batai* system and partly to the village economy which has produced and maintained this system, many of the costs of cultivation are paid in kind and therefore rise or fall in strict accordance with produce prices. Cattle have, however, generally to be paid for in cash, and the same applies to a number of other charges ; and to this extent the cultivator, whether owner or tenant, suffers from the lag in fall between income and expenditure. The consequence is a shrinkage in net profit, and when that profit has to be divided between landlord and tenant, the shrinkage in the tenant's income is much the greater of the two, since his costs are proportionately higher. Under the present definition of net assets, this would not be

[1] In 1936-37 the percentage was 76.

[2] Page 140.

taken into account by the Settlement Officer unless and until the shrinkage led to some reduction in the *batai* rates ; but there is little evidence of this at present, and in view of the rapidly increasing population it is perhaps hardly to be expected.

The lag in the rise and fall of costs.

75. On the other hand, so far as the fall in prices is concerned, all that is contended is that there is a lag between income and expenditure. This may be freely admitted,[1] but it is clear that sooner or later the lag must disappear, and the figures given in Part VI of Note A[2] suggest that it has almost disappeared already. There is, indeed, some evidence that in the canal colonies, where farming is on a more commercial basis than elsewhere in the province, the contrary tendency is setting in. For, if there is a lag one way when prices fall, there is a lag the other way when prices rise ; and when this occurs, the cultivator may be expected to gain as much as he loses when prices fall, assuming that prices rise as much as they fall.

The tenants' position.

76. Though the tenant's net income has undoubtedly shrunk with the fall in prices, there is no sign anywhere, except perhaps in parts of the Nili Bar Colony which are receiving the special attention of Government, that he is unable to live by his farming. Indeed, the figures analysed in paragraphs eight and twenty of Note A[3] suggest that good farming still pays reasonably well in the Lyallpur colony, and Major Prideaux's evidence suggests that the same is the case in the neighbouring Montgomery colony. As to the rest of the province, our statistical evidence is so meagre that we can hazard no opinion on the strength of it. At the same time there is a general consensus of opinion amongst our more instructed witnesses that the ordinary tenant with one or two ploughs does not often earn more, and may in places earn less, than the permanently hired agricultural labourer, and that he tolerates this because he need not work so hard and is both more independent and more secure. The position is no doubt different when a tenant has the support and guidance of a landlord who finances him in his difficulties and directs his farming on approved lines. But such landlords, though a number could be mentioned, are unhappily far too few in number to have any appreciable influence on the economic position of tenants as a whole, and our witnesses agree that in the landlord districts nearly all the larger landlords are too much in debt to finance their tenants and too apathetic to direct their farming.

[1] It is pointed out in " *Wisdom and Waste in the Punjab Village*, 1934, page 314 (by M. L. Darling).

[2] Page 140.

[3] Pages 132, 139.

77. Our general conclusion, therefore, supported moreover by our individual experience, is that at present prices the tenant who has no land of his own is hard put to it to make both ends meet. We say 'at present prices' advisedly, because it is not contended by any of our more competent witnesses that he was not reasonably well off when prices were high. The price factor cannot therefore be ignored in considering the question whether the owner-cultivator would gain or lose by having his land revenue assessment based upon the profits of direct cultivation instead of upon rents.

Profit and prices.

78. The answer to this difficult question depends on whether in the long run the owner-cultivator gets a larger *net* income from his land than if he gave it out on rent. The type of owner-cultivator we have in mind is the man who supports himself and his family on as much land as he can cultivate with a plough and a pair of bullocks, since this is the common type of landowner in the province, and it is mainly in his interest that the change of definition is urged.

The owner-cultivator's position.

79. It should also be explained that by net income we mean what remains after all the expenses of cultivation have been defrayed including a reasonable wage for the labour and enterprise of the owner and his family. What this wage should be is a matter of opinion. Logically, it would be consistent with the definition of economic rent given above to allow no more than what the ordinary tenant in the neighbourhood earns. However little this may be—and in some areas it is probably less than what an agricultural labourer earns—it is possible to justify it on the ground that, like the tenant, the owner-cultivator is more independent than the labourer and in addition enjoys greater security and a better social position. But in our opinion, whatever justification may be found in the strict application of economic principle, ordinary human considerations demand that the owner-cultivator and his family are allowed for their labour at least as much as a permanently hired agricultural labourer earns in the neighbourhood; and this is the criterion which has been applied to such statistical evidence as we have been able t obtain for judging the point we are considering.

The reward for his labour and enterprise.

80. This evidence is given in Part III of Note A and consists of figures for ten years for the large Government farm of Risalawala in the Lyallpur district.[1] It shows that only in the three worst years of the depression would landlords'

Landlord's net assets and owner-cultivator's net assets compared statistically.

[1]Note A, page 134.

net assets have been higher than owner-cultivators' net assets. In every other year assessment on the basis of the latter would have meant a higher land revenue rate.

Owner-cultivator and tenant compared.

81. This evidence, however, does not carry us very far, since very few holdings are concerned, and, except in one case, for too short a space of time. We took every opportunity, therefore, to ascertain from those who had experience both of farming and of leasing which system was the more remunerative. The witnesses who impressed us most were a group of landowners from the Lahore district who were applying both systems. All agreed, and this seems to be the general view, that when prices are high farming pays the better of the two; and most agreed that even at present prices, though there was not much to choose between the two, the balance of advantage lay with farming. This is the more significant since all were employing permanently hired labour, and all agreed that this was less remunerative than cultivation by the owner and his family with the help of only casual labour. This is because the owner-cultivator feels the magic of property and puts more manure and effort into his cultivation than a tenant-at-will or a hired labourer. The tenant-at-will tends to exploit rather than develop his land, and a hired labourer requires more control than many landlords are prepared to give. "No tenant cultivates his fields as carefully as the owner," said the headman of a village which was recently surveyed by the Punjab Board of Economic Enquiry[1]: "he is apt to give the land a scanty amount of labour and get whatever he can, and is never a true husbandman." And another cultivator of the same village, when asked whether he cultivated his own land more carefully than what he took on rent, said "What else could you expect? When we cultivate our own land the produce is ours. When we cultivate land on rent we only get a share."[2] All of which is endorsed by Mr. Calvert in his book, *The Wealth and Welfare of the Punjab*[3]

> "Tenants (he writes) generally take less care in preparing the land for crops, plough it less often, manure it less and use fewer implements upon it than owners. They grow less valuable crops, especially avoiding those requiring the sinking of capital in the land; they make little or no effort at improving their fields; they often keep a lower type of cattle; they avoid perennials and bestow no care on trees."

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[1] *Economic Survey of Sumer*, publication No. 48, page 62.

[2] *Op cit.* page 296 (2nd Edition).

[3] Page 206.

Importance of prices.

82. Although, in the absence of sufficient statistical data, it is impossible to dogmatize on the subject, we think it almost certain that before the depression direct cultivation yielded a higher net profit than the *batai* rental system. We think it almost equally certain that the contrary was the case immediately after the fall in prices when wheat fell from Rs. 4-6-0 to Rs. 1-9-0 per maund and American cotton from Rs. 13-2-0 to Rs. 5-9-0.[1] This is because, as already explained, the costs of cultivation fell much less rapidly than the price of agricultural produce. But now that the lag between the two has more or less disappeared and that prices have shown a tendency to recover, it is more than possible that the pendulum may be swinging the other way, and it is almost certain that if prices were to return to pre-depression level, it would swing back completely. Accordingly, the answer to the question whether the owner-cultivator would gain or lose by the proposed change in the definition of net assets is that it depends upon the future course of prices.

The present method of calculation.

83. We come now to the administrative aspect of the question. Under the present system the Settlement Officer has to take into consideration the following factors in calculating his produce estimate :—

(*i*) the matured area under each crop,

(*ii*) its yield,

(*iii*) its average price,

(*iv*) the share of each crop taken by the landlord ; and,

(*v*) the expenses normally incurred by the landlord in connexion with his rents.

Some of these factors can be precisely ascertained from our revenue records, and the others can be more or less accurately estimated with the help of these records and careful general enquiry, reinforced, if necessary, by experiment. To guard against possible injustice to the landowner, it has long been the practice to frame the most cautious estimates in regard to the more doubtful factors, and as Sir Edward Maclagan wrote over thirty year ago, " the prevailing tone in the calculations . . . . . is one of extreme—and perhaps from a purely statistical point of view excessive—moderation."[2] This is

[1] See page 147.

[2] *Imperial Gazetteer of India*, iv. 220.

particularly marked in the case of yields, the estimates of which are almost invariably well below what normal land produces. It is more than possible therefore that, even if true landlords' net assets are higher than owner-cultivators', the difference may be completely neutralized by the great caution in estimating. Nor must it be forgotten that Settlement Officers commonly differentiate in the distribution of their assessment between large and small owners to the advantage of the latter.

Extent and cost of the necessary enquiries to ascertain owner-cultivators' net assets.

84. If assessments were based upon owner-cultivators' net assets, far more factors would come into play. On the expenditure side, the Settlement Officer would have to estimate the cost of seed and manure, the maintenance and replacement of cattle, the permanent and casual labour employed, and the interest charges on capital, etc. ; and on the income side, equally accurate information would have to be obtained for each crop, and since conditions vary greatly from tract to tract and from season to season with the means of irrigation, the nature of the soil, and the character of the people, extensive inquiry would be necessary to obtain data sufficiently reliable for assessment purposes ; that is, data sufficiently reliable to command acceptance by the large majority of those who were assessed on the basis of it. Our expert witnesses differed to some extent as to the number of villages and holdings which would have to be examined for this purpose, and no doubt the number would vary from tract to tract as agricultural conditions were homogeneous or the reverse. But even for so homogeneous a district as Lyallpur the lowest estimate was forty villages and eight to ten holdings in each at a cost of about Rs. 40,000 a year.[1] And all agreed that, to allow for the great seasonal variations that occur in the Punjab, the enquiry would everywhere have to cover at least five years. In the case of a district like Lyallpur this would cost about two lakhs. In a more heterogeneous district like Gurdaspur, the range of enquiry would have to be considerably wider and the cost would be correspondingly greater.

Their reliability.

85. Even if the necessary number of more or less representative holdings could be found, it is very doubtful whether the accounts would be reliable. It would be impossible to conceal the object of the enquiry and when it was realized that forty years' assessment depended

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[1]This is in accordance with an estimate prepared by the Professor of Agriculture, Lyallpur, and based on the cost of enquiries done in connexion with the Farm Accounts series. The total cost per annum for 25 villages is Rs. 27,274 ; but this includes nothing on account of supervision and guidance by the Professor of Agriculture.

on it, every effort would be made on many of the holdings to show lower returns on the income side and higher on the expenditure side. A former Settlement Officer stated before us that, in anticipation of his settlement, a number of cultivators temporarily gave up the cultivation of sugarcane in the hope of reducing their assessment. Even if device does not often go as far as this, there will be every temptation to conceal part of the yield of such crops as cotton. In some villages the owners may even think it worthwhile to indemnify the cultivators of the selected holdings it they agree delibrately to undercultivate during the years of enquiry. In short, we think it very doubtful whether, with every possible precaution, net assets estimated in this way will be as reliable as they are at present. The method will certainly be far more costly, and will involve the maintenance of a special staff under strict control for at least four years before each settlement, since the Settlement Officer will require the figures at the end of his first year. The number of holdings to be examined will run into hundreds, and the cost of settling the whole province will probably be increased by well over fifty lakhs.

Maintenance of present definition and system.

86. Considering therefore the increase in expenditure, the difficulty of obtaining reliable returns, and the doubt whether even at present prices change would be of advantage to the land revenue payer; considering, too, the fact that nearly sixty per cent of the cultivated area is leased to tenants, we are strongly in favour of maintaining the present system. "The truth is," to quote a Government of India resolution of 1902, "the assessment of land revenue is subject to so many complicated and varying conditions that any attempt to reduce it to an exact mathematical proportion either of gross or of net produce would be not only impracticable, but would lead to the placing of burdens upon the shoulders of the people, from which under a much less rigid system, if sympathetically administered, they are exempt." Much the same view was expressed a hundred years ago by Thomason, in the pithy dictum that assessment was "not one of arithmetical calculation, but of judgment and sound discretion."[1] That this judgment and discretion are exercised by Settlement Officers with the most scrupulous regard for the people's capacity to pay cannot be doubted by any one who has read the countless assessment reports of the past still less by anyone who has seen Settlement Officers at work. The very nature of this work, with its prolonged and intimate contact with the people, inevitably generates in the mind a strong sympathy with their difficulties and needs.

[1] *Imperial Gazetteer*, iv. 223.

CHAPTER 5.

The Sliding Scale System.

Description of the system.

87. It has already been explained that the fall in prices has led to the introduction of the sliding scale system in the two settlements concluded since 1930, viz., in Montgomery and Lyallpur. This was done owing to the impossibility of foretelling the trend of future prices, and in order to adjust the wide gap between current and commutation prices[1] involved in calculating the latter according to established practice. The system derives from a *communiqué* issued by Government in 1935 and reproduced with our questionnaire.[2] Its object is to enable Government to pitch its demand high enough to take into account the possibility of prices rising to the average level of the last twenty or thirty years, and meanwhile to adjust this demand at each harvest to current prices. Its chief features are summarized in an order issued by Government on the assessment of one of the tahsils of the Lyallpur district. The relevant portions of the order are as follows :—

(*i*) The land revenue rates for each assessment circle based on commutation prices are the maximum rates payable during the term of settlement ; but the demand at each harvest due under these rates is not collected in full unless the general price level of the chief staple products of the district during the marketing season of the two preceding harvests is at least as high as the commutation price level.

(*ii*) If it is lower, revenue payers are entitled to a proportionate remission, however much lower it may be.

(*iii*) As stated above, the remission to be allowed is based on the prices current during the marketing season of the two preceding harvests. It is not based on the prices of the actual harvest, because the land revenue is payable before the marketing of the crops is complete and the season's prices are fully available.

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[1] i.e. the standard prices (based on the average of a number of years) at which the Settlement Officer values the produce of an assessment circle for the purpose of his produce estimate : See paragraph 22.

[2] Note B.

(*iv*) Remissions are granted in terms of *half annas* per rupee of land revenue. In other words they will be in units of $3\frac{1}{8}$ per cent of the full demand, e.g., $3\frac{1}{8}$ per cent, $6\frac{1}{4}$ per cent, $9\frac{3}{8}$ per cent, $12\frac{1}{2}$ per cent and so on according to prices. This makes it easy for revenue payers to check the amount demanded from them.

(*v*) The demand on each holding is first calculated at full rates and the remission allowed is then deducted from it. The balance is the net amount due.

In calculating whether any remission is due, three factors are taken into consideration :—

(*a*) the percentage of the total matured area under each important crop,

(*b*) the average yield per acre of each of these crops, and

(*c*) their commutation price.

By multiplying these three factors together a basic or settlement index number is obtained. A fresh number is worked out for each harvest and compared with the settlement number. In working this out, unless there are exceptional reasons for acting differently, (*a*) and (*b*) above are taken as constant. For (*c*), the prices current during the marketing seasons of the preceding two harvests are taken, and these prices are the average of the daily prices actually prevailing in certain markets in the district during the following periods :—

Cotton—November to February (inclusive).

Gur—December to March (inclusive).

Maize (Lyallpur[1] only)—November to January (inclusive).

Toria (1) Lyallpur—January 15th to March 15th.

(2) Montgomery district and the Khanewal tahsil of Multan—January and February.

Wheat (1) Lyallpur—May 15th to August 15th.

(2) Montgomery district and Khanewal—May 15th to September 15th.

Gram (1) Lyallpur—April 15th to July 31st.

(2) Montgomery district and Khanewal—April 15th to August 15th.

[1]Lyallpur includes the Rakh Branch of the Sheikhupura district.

The prices are so much per maund, and to make them correspond with village prices, they are subject to the following deductions per maund for transport and marketing charges :—

—	Annas.	Annas.	Annas.
Cotton	3	5	8
Gur	2	2	4
Toria	2	2	4
Wheat	2	2	4
Gram	2	2	4

The net average prices thus obtained are substituted for (*c*) above, and when multiplied by (*a*) and (*b*) give the required harvest index. If this index is as high as the settlement index or higher, no remission is given. If it is lower, remission is allowed in ratio to the shortage, subject to what is said above.

Its effects.

88. The effect of the system may be shown by the following figures for the Lyallpur district :—

	Settlement demand.	Actual demand after remission.	Percentage of settlement demand remitted.
	Lakhs. Rs.	Lakhs. Rs.	
1937—			
(*a*) Rabi harvest ..	48	33	31
(*b*) Kharif	35	28	19

The settlement demand in column two is based on the average prices for agricultural produce prevailing in the district during the twenty years before settlement and represents what may fairly be demanded, in accordance with established practice, at or above that level of prices. These are the commutation prices, and as explained above, at each harvest they

are compared with the prices prevailing during the preceding two harvests, and if they are appreciably higher, a remission of land revenue corresponding with the difference is given. The figures in columns three and four are the striking result.

The effect of the sliding scale in Lyallpur will, however, be clearer if we compare the actual demand given above with the settlement demand before it was recently revised. The figures for 1937 are as follows :—

Settlement demand as it would have been had not the district been re-assessed in 1935—37.	Actual demand.	Percentage remitted in terms of columns one and two.
Lakhs.	Lakhs.	
Rs. 69	Rs. 61	11

It will be seen that the effect of the sliding scale was to reduce the former demand by about 11 per cent. This is the more remarkable as the demand under the new settlement represents an increase of about twenty per cent on the old.

Its popularity.

89. It can be understood that the sliding scale system has not taken long to commend itself to those concerned, and our evidence leaves us in no doubt as to its general popularity in Montgomery and Lyallpur.

Two questions arise—

(*i*) Can it be improved in any respect ?

(*ii*) Should it be extended to the whole province, and, if so, in what form ?

These questions must now be considered. We take (*i*) first.

Impossibility of its application to yields.

90. If the sliding scale system could be applied to yields as easily as to prices, it would undoubtedly be an improvement. Fluctuations in yield are only less important than fluctuations in price, and in the districts which are entirely dependent upon a highly capricious and not very abundant rainfall—for example, Jhelum, Hissar and Gurgaon—variations in yield are of greater importance than variations in price. This is doubly so where holdings are small, for the small holder has comparatively little to sell. The contrary is the case in the Canal Colonies. There, owing to compact and somewhat larger holdings and to a tolerably

assured supply of water, variations in yield are of much less importance than in price, although there too they cannot be ignored. The proposal, therefore, to apply the sliding scale to yields as well as to prices is an attractive one. It is, however, open to so much practical objection that we cannot recommend it. Our expert critics are agreed that average yields are most difficult to calculate, a fact familiar enough to those who have attempted it even in small areas, and ex-Settlement Officers tell us that it is only after prolonged enquiry from every possible source that they are able to arrive at a reliable estimate for each crop. One Settlement Officer explained the difficulties thus :—

> " It took me eighteen months' continuous touring to formulate definite ideas. Crop experiments done between settlements are unreliable. Settlement experiments are more reliable, but they are confined to a short period, which may vary from the normal. Experiments by the Agricultural Department are reliable and valuable up to a point, but they are not sufficiently extensive and, therefore, not quite representative. Records of yields maintained by the Director of Land Records are not helpful. The best guide in the matter was discussion with a very large number of zamindars in the field and one's own observations."

When asked whether it would be possible to get reliable data for judging the variation in yield from harvest to harvest, he added :—" I think the task well-nigh impossible. There will be much room for corruption and even political agitation."

Calculation of yields—the case of cotton.

91. The Settlement Officer refers to the limitations of crop experiments done by the Revenue and Agricultural authorities. This is well illustrated by the case of cotton, for which accurate figures can be obtained from the ginning factories. According to official returns the average yield per acre for the five years ending 1932 was 4·63 maunds of unginned cotton ; but according to the factory figures and allowing for domestic consumption, it must have been almost six maunds an acre, and for the following quinquennium over 7½ maunds.[1] If a Settlement Officer, with every facility for enquiry, finds it difficult to gauge yields, estimates made from harvest to harvest will have little reliability, and will certainly be below the standard of reliability required for assessment. They will necessarily depend upon reports made by the subordinate revenue staff and can hardly fail in many cases to be strongly tainted by indulgence, if not worse, at Government expense. The difficulties are mentioned

[1]According to a note kindly supplied by the Director of Agriculture : see Note E.

by the Government of India in their resolution on Land Revenue Policy in 1902 :—

> "An assessment without a definite maximum limit in cash, and annually varying with the outturn of crops is exceedingly difficult to work with fairness" and "throws an undesirable amount of power into the hands of subordinate officials."

Agreeing, therefore, with most of our more competent witnesses, we consider the application of the sliding scale to yields impracticable.

Difficulty of high commutation prices.

92. Under the present law Government may not increase its demand during the period of settlement. Under the sliding scale system, therefore, the demand may be reduced, but not increased. This limitation compelled the adoption, in the case of Lyallpur, of a scale of commutation prices far above current prices in order to guard against serious loss of revenue should prices rise again considerably. This is open to the obvious objection that the assessment is based upon prices which are, to say the least of it, problematical, and the demand when announced necessarily appears to the ordinary revenue-payer excessive if not exorbitant. This was at first a source of much misunderstanding, as was indeed to be expected with an uneducated peasantry ; and the same misunderstanding is likely to arise, at the outset at least, wherever the system is introduced under similar conditions. "Nothing I could say or write in my abstract report", said one Settlement Officer "would convince the *zamindar*[1] that these high prices would not lead to injustice and over-assessment."

The remedy.

93. This difficulty would be avoided if the assessment were based more or less closely on current prices. For this purpose it would probably be sufficient, in all but exceptional cases, to take an average of the prices prevailing during three or at most five years before settlement, after excluding any year of obviously abnormal prices. If this were done, the scale would have to slide upwards as well as downwards, to guard Government against the loss of revenue which might otherwise follow. This would involve legislation and it would be open to the objection that the revenue-payer, however much he may appreciate a remission, will resent the introduction of so novel and unwelcome a feature as the enhancement of a demand fixed at settlement. Some of our witnesses regard this objection as fatal. Others, on the other hand, are inclined to think that the system will in time gain acceptance by its obvious logic and fairness. Believing that the Punjab

[1]In the Punjab this term is applied to any one who owns land however little.

cultivator is shrewd enough to appreciate both logic and fairness, we share this view provided that on the whole the system operates to his advantage. This would be the case with the following system, which we recommend.

Proposed upper and lower limits for the demand.

94. There should be two sets of commutation prices, one calculated according to existing practice, which involves a careful consideration of the prices prevailing since the last settlement, and the other on the method suggested in the last paragraph. The initial demand would be based upon the latter, and would remain fixed within an upper and a lower limit. This should be an advantage to both parties; to Government, because it will ensure some stability of revenue; to the revenue payer, because, in the absence of any wide fluctuation of price, he will know what he will have to pay at each harvest. There will also be some saving of complication administratively, since the demand will not necessarily vary from harvest to harvest as it is likely to do under the present system.

95. Opinion will doubtless differ as to what should be the upper and lower limits, but the margin should be sufficiently wide to prevent constant changes in the demand due to unimportant fluctuations in price. Further, for a reason to be explained later, we think that the margin upwards should be considerably wider than the margin downwards; in other words, that enhancement should start proportionately later than remission. In order, too, that the margin may be readily intelligible to the revenue-payer, we would measure it in terms of so many annas in the rupee. The margins which we suggest are two annas for a fall, and four annas for a rise, in price. There would then be no remission until prices fell 12½ per cent below the lower commutation level, and no enhancement until they rose 25 per cent above it.

96. Thereafter remission should be calculated to the nearest half-anna, and enhancement to the nearest anna. This last will be to the advantage of the revenue-payer and will, moreover, facilitate our further proposal that, when remission is due, it should be given in full proportion to the fall in prices, but when enhancement is due, an abatement of fifty per cent should be given. If, for example, prices rise by 25 per cent the enhancement would be only two annas; if by fifty per cent four annas, and so on until the maximum limit is reached. The maximum limit should be the demand due under the higher level of commutation prices, to be fixed in accordance with existing practice. The lower level would thus determine the initial demand, and the higher the maximnm demand. The advantage to the revenue-payer would be this. Under the present system

as long as current prices are not well above commutation level, the land revenue demand is more or less closely based upon the prices at which it has to be paid; whereas, from 1900 to 1930 there was a wide margin between the two in favour of the revenue-payer. This has been an important factor in facilitating the payment of land revenue. The proposed system secures a re-establishment of this margin when prices rise above the lower level, and it is, we consider, a strong point in its favour.

Effect of a rise in prices on the small holder.

97. An even more important point is that it takes into account the fact that a rise in prices does not benefit a small holder proportionately. We can best illustrate this point by quoting the following passage from *The Punjab Peasant in Prosperity and Debt*:—

> "It is commonly assumed that high prices are good for the cultivator, and now that prices have fallen, the assumption will be made more freely than ever. But it is only correct as long as he has more to sell than to buy. If it is the other way round, he benefits no more than any other class of consumer. In the Punjab, the man with twenty or thirty acres generally has more to sell than to buy, and if his land is secured against drought by canal or well, high prices are an obvious advantage. But where, as in some districts, a man is lucky if he has half a dozen acres to cultivate, they are as likely as not an evil; for it is only in good years that he has much to sell, and in bad years he may have to buy the very grain he eats....In 1879, a Deputy Commissioner of Hoshiarpur, explaining why the great increase in the value of produce had not enabled the agricultural community to better its position, remarked: 'Generally the produce raised on a holding is not more than sufficient, if it is ever sufficient, to support the family of the cultivator. It is only the larger owners.....who have a surplus for sale.' Forty years later the same tendency was noticed again in the survey of a Hoshiarpur village. 'The larger landowners,' we are told, 'have profited a lot by the rise in the prices....the small owners have suffered;' and the reason given is that the latter have little to sell and as much as ever to buy. Similarly, in Ajnala, where holdings are as small as in Hoshiarpur, we read that in certain villages of very small holders high prices have been 'more a curse than a blessing', for they hardly ever have any surplus to take to market, while in a bad year they seldom have enough to eat.....For the smallest holders high prices are probably an evil, as for the large they are clearly a blessing. For the holder who cultivates ten or twelve acres it is a question whether they are good or bad."[1]

[1] *The Punjab Peasant, Op. cit.* pages 224—26.

This judgment about the smallest holders found some confirmation when prices suddenly fell. In the Murree tahsil and the Salt Range, both areas of very small holdings, the fall in the price of wheat came as a blessing, since more wheat is commonly purchased than sold. Even for the somewhat larger holder who cultivates eight to twelve acres, a rise in prices is far from being the advantage that it is to the more substantial holder of the canal colonies ; and if, as is often the case, he depends upon cash resources, drawn, for example, from emigration and service, it may even be an evil, as the purchasing power of the rupee will be less. In the colonies, land revenue can much more safely rise or fall with prices than in such characteristic districts of small holders as Rawalpindi, Jhelum, Jullundur and Kangra ; than indeed in the whole of the submontane tract from the Jhelum to the Jumna. In this area it seems to us unwise to base the settlement demand upon a level of commutation prices much above current prices. The system we propose should be more appropriate, for (*a*) when prices rise above the lower commutation level there will always be a margin of at least 25 per cent in favour of the land revenue payer, and (*b*) the maximum demand will not exceed the maximum demand under the present system, and will only be payable when prices are well above the higher commutation level.

Advantages of the present system and of the Committee's proposal.

98. Psychologically, the present system has the great advantage of always appearing to operate by way of remission, though actually it enables the demand to be pitched higher than would otherwise be possible. It has the further advantage of securing to Government, up to a fixed point, its full share of the results of any rise in prices. Our proposal has neither of these advantages. Under it an enhancement appears undisguised in all its naked ugliness, and if taken in the form suggested, it will bring less to Government than the present system. But it has the great merit of being fairer to the small holder, inasmuch as it allows for the fact that he does not benefit proportionately by a rise in prices.

Possible application of different systems.

99. This system would, we believe, suit the more congested districts, where for the most part proprietary holdings are very small. Similarly, the present system would appear to be well suited to the canal colonies ; probably, also, to districts where holdings are of a reasonable size. In some districts it will be a doubtful point which system should be introduced, as circumstances will vary from circle to circle. Our experience at present is altogether too brief and too local to enable us to dogmatize on the subject for the whole province with its very diverse conditions. A much

longer period of experiment is necessary before the system can be finally blessed or its best form determined. All, therefore, that we can recommend is (*i*) that, when a district comes under settlement, it should be carefully considered which system is likely to suit it best, and (*ii*) that after ten years the whole position should be reviewed in the light of the experience gained.

Disadvantage of basing remission upon the prices of past harvests.

100. As already explained,[1] to guage whether any remission is due, commutation prices are compared at each harvest with the marketing prices of the last two harvests. The great disadvantage of this system is that the current price of a crop may be much lower than its price the year before. This is now the case with wheat. The difficulty, which is serious enough under the present system, will be much more serious under a system which provides for enhancement as well as remission ; for an enhanced demand may have to be collected when prices no longer justify enhancement and may even justify remission. After careful consideration we recommend the following as the best solution of the difficulty.

The remedy.

101. In a large part of the province the two most important crops for the payment of land revenue are wheat and cotton, wheat for the spring harvest, and cotton for the autumn. In certain districts, gram is only less important than wheat. Figures for the last twenty years show that, in the case of wheat and gram, the average price prevailing during the first half of April differs remarkably little from the prices prevailing during the marketing season ; in the case of wheat it was higher on the average by four per cent, and in the case of gram lower by 3½ per cent. The position is not very different in regard to cotton for the first half of November. In this case we have prices for ten years only. These show that during this fortnight country cotton was five per cent higher, and 'American' two per cent lower, than the average for the four marketing months, November to February.

What we suggest, in the case of these three crops, is that for the purpose of calculating whether any remission is due, their current price, should be taken as the average of the daily prices[2] during the periods named above, this average to be increased or reduced, as the case may be, by the average difference (calculated on a twenty year basis) between the periods and the appropriate marketing season. The twenty years should be

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[1]Paragraph 87 (*iii*).

[2]The figures given above are based on fortnightly and not on daily prices. The collection of the latter would have taken more time than was available.

the last twenty years before the calculation is made, and the difference should be adjusted to the nearest half-anna.

No adjustment at all would probably be necessary if the first half of May and December could be taken for wheat and cotton respectively, but in that case the demand statements could not be prepared in time. We are informed, indeed, that for Lyallpur the question of remission should be finally settled by at least May 1 and November 15 for *Rabi* and *Kharif*, respectively. Even our proposal does not admit of this in the case of cotton, since at least a fortnight must be allowed for the necessary calculations and orders. This can be adjusted by postponing the collection of land revenue by a fortnight or three weeks. This should not seriously prejudice recovery and we strongly recommend action accordingly. It is a small price to pay for relating the sliding scale more closely to current prices. The alternative would be to take the last half of October instead of the first half of November. This would be unobjectionable in the case of country cotton, but in the case of 'American' the difference is eight instead of two per cent.[1]

In the case of *gur*, no adjustment can well be made; for our figures show that its average price during the last twenty years has been thirty per cent higher than during the four marketing months, December to March. For the last ten years the average is nearly forty per cent.

Toria is another crop which is taken into consideration in Lyallpur. For the purpose of the sliding scale its marketing period is January 15th to March 15th. As it is a *Rabi* crop, this will fit in with what is recommended above.

Importance of early orders.

102. It will facilitate the adoption of our proposal if the period of calculation and sanction referred to above is reduced to a minimum. At present the calculations are made in the office of the Director of Land Records and checked in the office of the Financial Commissioners, and proposals are finally submitted to Government for sanction. As the whole process is a purely arithmetical one and to that extent automatic, there appears to be no necessity to obtain the sanction of the Government: the sanction of the Financial Commissioners should be sufficient. As to the calculations, with the gradual spread of the system from district to district, the work will impose an increasingly severe strain upon the office of the Director of Land Records. It is for consideration whether the initial calculations could not be done more conveniently and equally efficiently

[1]For detailed figures see Appendix VI. The figures have been kindly worked out for us by the Marketing Officer, S. Kartar Singh.

in the district office concerned. They could then be checked as at present in the office of the Financial Commissioners. If each case is treated as urgent throughout, the whole process should not take more than a fortnight.

Weighting of prices.

103. If this is not done and the present system is maintained. we have another recommendation to make. In the case of Lyallpur five crops are taken, namely, wheat, gram, cotton, *gur* and *toria*. In every case except the last prices are ascertained for four months; but the amount of produce marketed is not equally distributed over the whole period. This is illustrated by the following figures for wheat :—

	Percentage of crop marketed.
May	16
June	23
July	18
August	8
September	6
October	5

It is urged, and it seems only fair, that in working out the remission the price should be weighted according to the amount of produce sold each day during the period in question. This will involve more complicated returns and calculations, but the method will certainly be fairer to the landowner. It is an advantage of the modification recommended in the last paragraph that this complication can be avoided, anyhow, in the case of the more important crops.

Effect of a fall in agricultural prices on (*a*) the cost of cultivation.

104. A disadvantage of the present system and its high level of commutation prices is that actual prices at present are well below commutation level and necessitate frequent remissions. This would not matter if the cost of cultivation fell *pari passu* with the price of agricultural produce, but this is not the case when the fall in prices is at all abrupt as it was in 1930-31. The figures given in part VI of Note A suggest that there is a considerable lag between the two and that it takes some years for it to disappear. During this period any remission given in proportion to the fall in an owner-cultivator's gross income would not be in proportion to the fall in his net income. But when prices start rising again the reverse process sets in, and in time, it may be supposed, the two tendencies neutralize each other.

(b) Landlord's net assets.

105. In the case of the landlord the position is somewhat different, and the difference is important as assessment is based upon landlords' net assets. These for the most part he receives in kind and to a great extent his income and expenditure rise and fall equally with prices. In most cases, therefore, there is little if any lag between the two. The lag is only apparent where, as in Lyallpur, the landlord pays part of the water rate, since this has to be paid in cash and ordinarily the charge does not vary with prices. Although the lag is much less marked than in the case of an owner-cultivator, it has its importance as it continues to operate until prices return to commutation level. With high commutation prices, therefore, it is not an entirely negligible factor, and unless some margin is allowed for it in assessment, as we think should be done, it is likely to result in more than 25 per cent of net assets being taken over the whole period of settlement. This will be clear from what is said in Note A.[1]

Should the sliding scale system be extended to the whole province?

106. In conclusion we may note that we have considered whether the sliding scale system should be extended forthwith to the whole province in order to relieve the pressure due to the fall in prices, which shows little sign of abating. Our conclusion is that this would be an unwise step for several reasons. Firstly, it may well be very costly. For example, last year, with higher prices than are prevailing at present, it would have cost 25 lakhs.[2] Secondly, it would give no more relief to the small holder than to the large. Indeed, the statement which we have had prepared shows that, with one or two exceptions, it is the districts with larger holdings that are likely to benefit most. Thirdly, it could only be done on the basis of the commutation prices in each district, and this involves considering one only of the many factors that enter into a settlement. To consider the other factors at the same time would virtually mean a re-settlement, and if this were done in the office — and it could hardly be done otherwise — it would be open to the gravest objection. On the other hand, if the other factors were not considered, it would be bound to lead to inequality and injustice, not merely between district and district but also between village and village. Finally, as pointed out in paragraph 99, it cannot yet be assumed that the sliding scale system will suit the whole province. Whether it will or not can only be discovered by experience, and for this reason we have recommended above that it should be reviewed after ten years.[3] Till then,

[1] Paragraph 25, page 142.

[2] See Appendix III.

[3] Paragraph 99.

whenever any remission is needed on account of prices, we would give it, as has been done in the past, after careful consideration of the special circumstances of each district. Large remissions of land revenue amounting to 190 lakhs have been given by Government in this way during the period of low prices and we understand that a formula has now been worked out for giving similar relief in future.

CHAPTER 6.

Miscellaneous Points.

In this chapter we propose to consider a number of points which have arisen in the course of our enquiry and which can be very briefly dealt with either because no change is advocated or no very-complicated issue is involved.

The Fixed and Fluctuating Systems of Land Revenue.

The fixed and fluctuating systems.

107. As has been explained in chapter one,[1] the land revenue demand may be either fixed or fluctuating. It was for long an essential feature of the British policy of land revenue assessment in North-Western India that the demand should be fixed for a number of years, and an important object of this was that the proprietor might reap the benefit of any improvement or extension in cultivation during the currency of the settlement. The great uncertainty of the harvest in riverain and other areas led to the introduction of the fluctuating system, under which the crops are assessed at each harvest at the appropriate rates. These rates do not change, but the acreage to which they are applied varies from harvest to harvest. Experience showed that this system suited canal-irrigated tracts, especially new colonies with their very undetermined conditions. The wide extension of canal irrigation has, therefore, led to a wide extension of the fluctuating system, and now the latter yields almost as much land revenue as the fixed system. The figures are 234 and 236 lakhs respectively.[2]

Advantages of the fixed system.

108. There has been much controversy in the past over the merits and demerits of the two systems, but it has long since died a natural death, and it is now universally admitted that each system has special advantages under certain conditions. Where harvest conditions are extremely insecure or where the pitch of assessment is relatively high, the fluctuating system is appropriate. The advantages of the fixed system are at first sight less obvious but none-the-less great. To quote Sir Geoffrey de Montmorency the demand under it "is far lighter than what the individual would pay under a fluctuating system in good years with good prices, while it is not heavy enough to burden him unduly in less favourable seasons."[3] It has also the merit of fixity, for every one "knows the limit of his yearly obligation over the whole period of a settlement"; [3] nor, as already pointed out, does it tax improvements.

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[1] Paragraph 24.

[2] See paragraph 26.

[3] Note C, page 182.

It is perhaps characteristic of the customary basis to which all economic factors in village life tend sooner or later to adjust themselves that no where did we find any general desire to change from one system to the other. We recommend, therefore, that the *status quo* should be maintained.

The fixed well assessment in Multan.

109. Mention may be made of the fixed well assessment in Multan, as a group of landowners of that district stated before us that it was working harshly. The system, which is described in paragraphs sixteen and fifty of the Final Report of the Fourth Regular Settlement, has been enforced since the Third Regular Settlement. It worked well during the last settlement and we were given no definite instances of its harshness or failure in the current settlement. The fact, indeed, that the number of wells in use in the Shujahbad Tahsil increased from 5,683 in 1920-21 to 6,435 in 1936-37 suggests the contrary.

The *kharaba* system.

110. The fluctuating system has one great drawback. To quote Sir Geoffrey deMontmorency again, "one of its invariable concomitants .... has been to bring the low paid assessing agency into a close but somewhat unhappy relation with the individual revenue-payer, which has not infrequently resulted in some prostitution of the morality of both."[1] This is because, when a crop fails to mature beyond a certain point, the land revenue, and in a canal-irrigated tract the water-rate as well, are remitted in whole or in part according to the extent of the failure. This opens a wide door to the practice of corruption in the subordinate staff. How wide is a matter of opinion, and no doubt it varies with the control exercised by individual officers. But the evil is sufficiently serious to have been the subject of repeated complaint before us, and we are inclined to think that the smaller owner suffers more from it than the larger, since in the competition for *kharaba*, as this form of remission is called, it is generally the longer purse that wins. The evil is not, however, a new one. The sore has been there for many years and from time to time it breaks out afresh. It has repeatedly engaged the attention of Government, and we understand, that it is doing so again. It is a good illustration of the danger of giving power to the *patwari*. Some must be given or the revenue administration could not be carried on, but the rule should be — as little as possible, and then only under the most vigilant control. It is an advantage of the fixed system that it reduces this power to a minimum.

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[1] Page 184.

Should Land Revenue vary with particular Crops ?

111. The suggestion that land revenue should vary with the crop, as the water-rate does, was made to us by a witness in Montgomery, whose long experience as a farmer on a large scale entitles his opinion to respect. His main object in making it was to encourage cattle breeding by assessing fodder crops to a lower land revenue rate. The importance of developing the great livestock potentialities of the province is great, but we are not in favour of doing it in this way, as it would involve a considerable increase of complication in our land revenue system and we are opposed to this on principle, until at least we have either a more educated peasantry or a more reliable subordinate staff. Moreover, the proposal found no support with any of our more expert witnesses.

Distribution of Land Revenue.

The present system.

112. The Settlement Officer makes his assessment proposals by circles and submits them toGovernment in a single report for each tahsil. As soon as orders are received he proceeds, if the assessment is fixed, to distribute the demand over the different villages or estates[1] in each circle, and if it is fluctuating, to assign to each village its appropriate scale of rates. In doing this, he is guided by his knowledge of the village, gained from his previous detailed inspections, and by his statistical information regarding the size of its holdings, the financial position of its owners, and the factors likely to affect their paying capacity. With a fixed assessment, he is at liberty to go twenty per cent above or below what would be payable on the basis of the rates sanctioned for the assessment circle without assigning any reason, and with due explanation he may go even beyond these limits. With a fluctuating assessment, he may apply any of the sanctioned grades of rates to a village. In both cases he exercises this discretion with full regard to the economic condition of the village. The discretion is, however, subject to the condition that in each assessment circle the demand as finally distributed shall be within three per cent. (either above or below) of the sanctioned demand.

Recommendation.

113. We are satisfied that this discretion is wide enough to allow of sufficient discrimination between villages of small owners and others. But to ensure its being fully used in this way, we recommend that the pointed attention of all Settlement Officers should be drawn to

[1] Village and estate are usually, but not always, identical, see page 2 *ante* (footnote 2).

the rules on the subject, and further that they should be instructed to make full use of the discretion vested in them for the benefit of villages consisting mainly of small owners, especially in congested areas.

Suspensions and Remissions.

114. A fixed system of assessment pre-supposes the suspension or remission of the demand when the crops are affected by calamity. Accordingly, special rules are framed for each district at settlement and, after receiving the approval of the Financial Commissioner, are incorporated in the Final Settlement Report of the district. They then serve as a guide during the period of settlement for the grant of suspensions or remissions.

The suspension and remission rules.

115. Calamities for this purpose are of two kinds—ordinary and extraordinary. Ordinary calamities include drought and the untimely cessation of the rains, and extraordinary, such visitations as hail, flood, and locusts. In the former case, recovery of the harvest demand is suspended in whole or in part until a later harvest; and in the case of the latter, part of the demand is usually remitted. A good example of this is the remission of nearly fifteen lakhs last year owing to a devastating hailstorm in Multan and Montgomery.

Their application to ordinary and extraordinary calamities.

116. Great care is taken in the recovery of suspended revenue not to impose too heavy a burden on the paying capacity of those concerned at any particular harvest, and when the revenue under suspension cannot be recovered for three successive harvests it is generally remitted. Suspensions are not, however, popular, as they add to the burden of payment in later harvests. We have, therefore, considered whether it would be wise, in the case of ordinary calamities, to remit a smaller sum outright in preference to the suspension of a larger amount. We are satisfied that this would not be an improvement, for it would almost certainly lead to borrowing for the payment of the unsuspended balance. Moreover, the Settlement Officer, in fixing the demand of a village, takes into careful consideration its liability to seasonal calamities, and the resultant demand is often so light that in a good harvest twice the amount can be paid with ease. This applies with special force to the most insecure areas; for instance, to a great part of Hissar. Nowhere, too, did we receive any complaint that the present rules required amendment. In Gurgaon, where they left something to be desired, revised rules have very recently been introduced. This district is a good example of the freedom with which the system of suspension

The working of the Suspension rules.

and remission works. In the eighteen years ending 1936-37, 84 lakhs, or nineteen per cent of the total demand, was suspended, and three-fifths of this amount (fifty lakhs) was ultimately remitted. All things considered, we are not in favour of any change in the rules.

Recommendation regarding extraordinary calamities.

117. In the case of extraordinary calamities, the amount of land revenue due on the damaged area is calculated, and if it is less than one-fourth of the total amount due on the whole holding, no remission is given. This rule works a little harshly in the case of the larger holdings and was the subject of complaint before us in more than one district. The governing rule, which is contained in paragraph 565 of the Land Administration Manual, could be made more liberal by substituting "field" for "holding" in the last line. The question of remission would then be considered in terms of each field separately instead of each holding. We recommend amendment accordingly.

Payment of Land Revenue in kind.

The *batai* and *kankut* systems.

118. We have considered whether payment of land revenue in kind would be of material assistance to the small owner. There are three ways in which this might be done. The first two would involve a reversion to methods in vogue under the Sikh Raj, but abandoned after annexation. The first of these is the *batai* system. This would involve Government taking a fixed share of each owner's produce at harvest time, just as the landlord does with his *batai* tenants.[1] The second is the *kankut* or appraisement system, under which the yield of each field is appraised by Government officials, and a fixed proportion levied accordingly. Both systems are now obsolete, and no one of any experience wishes to revive them. Opinion is virtually unanimous that they would involve a great increase in peculation and harassment, and they would obviously require a large increase of staff. We need not therefore pursue them further.

Payment in kind on a cash basis.

119. A more possible system would be to retain the present cash basis of assessment, but to allow its payment in kind at conversion rates fixed at each harvest. This might be either compulsory or optional. Its advantage to the small owner would be that it would save him the trouble and expense of converting part of his crop into cash for the payment of his land revenue, and to Government, that it would provide an opportunity of improving the marketing of agricultural produce throughout the province. On the other hand, it would involve elaborate storage

[1] i.e. tenants paying a share of the produce as rent, see paragraph 73.

arrangements, and commercial operations on a large scale and, often of a speculative character. Godowns and warehouses would have to be constructed at convenient centres and arrangements made for the prompt handling of produce and for its proper valuation. Here again the risk of peculation and harassment would be great; and the risk of the former would continue until the produce was finally sold. This in itself would raise a number of problems, which might not always be solved to the advantage of Government. Much more might be said on the subject, but this is unnecessary since there is no body of opinion in favour of the idea. Nor do our marketing experts consider it likely to effect any real improvement in our marketing system.

A co-operative experiment.

120. There is one further means by which payment in kind might possibly be re-introduced. Last year the Co-operative Department, following the example of certain societies in the United Provinces, notably the Moradabad District Central Bank, introduced into the three districts of Rohtak, Karnal and Gurgaon, a system which gives members of village Thrift and Credit Societies the option of paying their dues to their societies in produce. The system has been adopted by seven central banking institutions and is as follows :—

The member takes his produce to the local market and sells it in the usual way through a commission agent, but for this particular purpose he does it through an approved agent, of whom there may be two or three in the market. Instead of handing over the proceeds in cash, the agent gives the member a receipt and pays the proceeds to the central banking institution to which his society is affiliated, and the amount is finally credited to his account through his society. The member is secured against fraud on the part of the commission agent, partly by his receipt, and partly by the general supervision of the co-operative staff. The system gives him several advantages. Firstly, he generally gets some remission in market dues, the commission agent agreeing to this in return for an increase of business. Secondly, he is saved the trouble of taking cash back from the market to his village and handing it over to his society. Thirdly, the supervision of the co-operative staff secures him fair weighment, on which he could not otherwise count. Finally, he is given a concession of one anna in the rupee in the settlement of his dues.[1]

Its possible application to land revenue.

121. The system is working in seventeen markets, but, having been in force for only two harvests, it is still in an experimental stage. The increase in recoveries, however, which has followed, gives it a promising appearance. If it establishes itself—

[1]For a detailed description of the scheme, see Note F.

and this may take another two or three years—we think that it would be worthwhile to extend it experimentally, on an optional basis and in carefully selected areas, to the payment of land revenue. Sale-proceeds would have to be made over to the local tahsil in place of the central banking institution ; otherwise there should be no very great difference. More commission agents would presumably be required than at present, as revenue-payers are far more numerous than co-operators ; and they would have to be selected with care, since the success of the scheme would depend to a large extent upon their efficiency and reliability. The regulation of markets, which is now under consideration, should facilitate this. The responsibility of the headman for the collection of land revenue would continue, and means would have to be devised to keep him in touch with payments made through the commission agent.

PART III—Measures of Relief for the small owner.

CHAPTER 7.

Measures of Relief.

The fiscal difficulty.

122. In this chapter we propose to examine the necessity for relief and the more feasible ways of giving it. In doing this we are handicapped by not knowing what funds are likely to be available. This must depend upon what is determined to be (*a*) the minimum amount required for the annual provincial budget, after the most careful scrutiny and review and (*b*) the best way of raising this amount. Presumably the Resources and Retrenchment Committee will deal with these two fundamental questions in their report.

Taxation of the agricultural classes.

123. There is an even more fundamental question. In framing the annual budget and in considering what part land revenue should play in it, should the aim be to put lightness of taxation before development, or *vice versa*? Or should the object be broadly to maintain the present ratio between the two? By lightness of taxation, we mean a scale substantially lighter than the present, and by development, an increase in all the nation-building activities of Government. In each case we assume that the non-agricultural classes are required to pay their full share of the cost of Government. This assumption is an important one, because, rightly or wrongly, there is a strong feeling in many parts of the province that the non-agricultural classes are not paying their fair share. We leave it to the Resources and Retrenchment Committee to determine how far this is justified. In so far as it is, we strongly recommend that early steps should be taken to redress the balance, if only because the general demand for a reduction in land revenue derives much of its force from the strong sense of injustice generated by this belief, which moreover constitutes an unhealthy element in the body politic.

The fall in prices.

124. As long as prices were high, the payment of land revenue presented no serious difficulty. The whole position changed with the fall in prices, and in the two worst depression years, 1930-31 and 1931-32, it was only paid with the help of the generous remissions granted by Government and of the resources accumulated, mainly in the form of jewellery, during the years of high prices. 1933-34 was another bad year, but in the next three years prices showed some tendency to rise, and in 1935 and 1936 the position was further improved by exceptionally good cotton crops. In 1937 the cotton crop was again well above normal but this year prices

are once more at a low level. This is clear from the following figures :—

	Price per maund at Lyallpur on 1st May		Average wholesale price per maund in 1929-30.
	1938.	1937.	
	Rs.	Rs.	Rs.
Wheat	2 3 6	3 6 9	3 2 0
Gram	2 5 0	2 6 6	3 12 0
Raw cotton—			
(*a*) Country	4 4 0	7 3 0	6 15 0
(*b*) American	6 2 0	8 8 0	8 15 0
Gur	3 4 0	3 2 0	6 5 0

It is evident that wheat and cotton have both fallen considerably in the last twelve months and are much lower in price than before the depression. The effect of this is most severely felt in the canal colonies, which are the chief exporting areas of the province.

Its effects.

125. But for the depression there would have been no substantial ground for any general relief. Until 1930, the land revenue as a whole was paid with ease, and the Land Revenue Amendment Act of 1928 introduced a lighter scale of assessment for the future. But the depression has swallowed up reserve resources, and the wide margin between current and commutation prices, which had existed for thirty years or more, has disappeared. This margin was due to a steady rise in prices, which proceeded so rapidly that in the case of many new settlements prices were well above commutation level by the time the settlement came into operation. Its disappearance has naturally increased the pressure of land revenue upon the land, especially where current prices are below commutation level. In two recently settled districts (Lyallpur and Montgomery) matters have been roughly adjusted by the application of the sliding scale system. But even this system ensures no margin in favour of commutation prices; all it attempts to do is to eliminate any margin on the other side. It follows then that the ratio of land revenue to net assets has a new importance.

The net assets ratio.

126. Until 1928 the maximum permissible ratio was fifty per cent. It was then proposed to reduce it to 33 per cent. Had this been done, it would have involved comparatively little change, for in only two assessments done since 1914 (Multan and Muzaffargarh) has this ratio been exceeded for a district as a whole. It was, however, reduced to 25 per cent, a proportion much below the standard prevailing in any other province.[1] Its effect when applied retrospectively to seven districts,[2] which had recently been settled either in whole or in part, was to reduce a total demand of 94 lakhs by about ten lakhs.

Its general reduction inadvisable.

127. We have considered whether the same relief should not be given to the rest of the province when the ratio exceeds 25 per cent. We do not recommend this, for, firstly, according to a statement[3] which we have had prepared on the basis of assessment circles, it would cost over 51 lakhs a year. Secondly, it would assist large holders, as well as small: it would indeed benefit Multan, which is pre-eminently a landlord district, by nearly seven lakhs a year, while Hoshiarpur and its innumerable small holders would get less than a lakh. Lastly—and this is a very important consideration—the net assets ratio is only one of several tests that would have to be applied to judge the pitch of assessment in different assessment circles. The position is clearly explained in the following passage, which is taken from the evidence of an ex-Settlement Officer :—

> "When a district is settled, apart from the three factors, commutation prices, yields and the percentage of cropping, there are a number of other factors which fall within costs of cultivation like *kamins'* dues, etc., which the Settlement Officer has to consider very carefully before deciding on the pitch of his new demand. A Settlement Officer assesses what he sees on the spot. Somehow he gets a very clear idea of what revenue he can fairly levy and realizes the limit which he must not transgress. It may be that in a particular assessment circle a Settlement Officer assumed a comparatively high commutation price for wheat ; it is very difficult to say that this was not balanced by some reduction in the price of cotton. Or supposing a Settlement Officer generally assumed high

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[1] In Bombay, the Central Provinces and Berar the maximum is still fifty per cent ; and also in Madras, though actually much less is taken. In the United Provinces forty per cent is usually taken, but less (subject to a minimum of 25 per cent) in the case of estates of small holders.

[2] Gujranwala, Sheikhupura, Gujrat, Jhang, Shahpur, Mianwali and Attock.

[3] Appendix V.

commutation prices, then he may have counteracted the effect of high prices by assuming a somewhat low yield or by giving some liberal deduction for *kamin's* dues, etc. A Settlement Officer's proposals are the final results of the sum total of his accumulated observations and calculations."

It is clear, therefore, that, if a general reduction of assessment were to be determined by the single factor of the net assets ratio, inequality would be bound to follow, not only as between one district and another but also as between one assessment circle and another.

Re-settlement of districts with a high net assets ratio.

128. Accordingly, we do not advise a general and immediate reduction in the interests either of the small holder or of equality of treatment. Such inequality as exists owing to the reduction in the ratio can only be properly adjusted by re-settlement, when all the relevant factors and all the agricultural and economic changes that have taken place since the last settlement can be carefully examined in relation to each other. In thirty years these changes may be so great, involving improvement in some cases and deterioration in others, that it does not necessarily follow that re-settlement on the basis of the new ratio will lead to a general reduction in assessment. At the same time, when the present ratio is in the neighbourhood of forty per cent, as it is in three districts, all settled before 1914, viz., Gurgaon (42 per cent), Kangra (40½) and Karnal (39½), it may be presumed that there will be reduction in a number of assessment circles, though probably not to the extent indicated in Appendix V. We understand that settlement operations will probably start in Gurgaon this year, and that the re-settlement of Karnal is also under consideration, as the present settlement expires in 1939. The Kangra settlement, on the other hand, does not expire until 1947. Since its ratio is over forty per cent and nowhere are holdings smaller, we think that it should be considered whether re-settlement should not start well before then, even though it involves a premature charge on provincial revenues.

Concession to the small owner-cultivator.

129. There is one permanent measure of relief that we advocate in the interest of the small holder, whom for this purpose we would define as a man paying not more than Rs. 25 land revenue. It is that in future settlements whatever assessment may be due should be reduced by 25 per cent in respect of all land that has been cultivated or farmed by the owner or his family for at least four years before settlement. This should be done only at settlement and should not be revised during the

period of settlement except in succession cases. Any other course would put more power than was desirable into the hands of the *patwari* and probably lead to a large number of bogus entries in the revenue papers. Even at settlement the danger will be present, but it should be much less with the settlement staff to control it, especially if the Settlement Officer is given full discretion, subject to an appeal to the Commissioner, to refuse the concession in doubtful cases.

An analogy from the United Provinces.

130. An analogy for the proposal may be found in the concession commonly given in the United Provinces to all classes of landowners in respect of land classed as *khudkasht* or *sir*[1]. The concession is given only at settlement and is said even so to lead to a certain amount of irregularity. Moreover, its application presents less difficulty in a province of only $1\frac{1}{4}$ million landowners than in a province of nearly $3\frac{1}{2}$ million. Apparently, however, its introduction into the Punjab was proposed at the beginning of the century, and Sir James Wilson, who was then Settlement Commissioner, described it as a system under which "poor peasants are assessed on the lands they themselves cultivate at rates considerably lower than those charged on similar lands owned by rent-receiving landlords ".[2]

Its advantages.

131. The cost of the proposal cannot well be estimated since it must take thirty years or more to introduce it throughout the province. Moreover, we consider that it should be introduced experimentally in one or two districts of small holders before it is made an integral part of our system. Conditions vary greatly from district to district, and even from circle to circle. It may, therefore, be found to suit one area and not another; or it may lead to too much abuse and anomaly. The reduction in the period of settlement to thirty years or less, advocated in paragraph 202, would greatly facilitate it, and if it proved to be feasible it would have the double advantage of helping the smaller owner-cultivator and of encouraging direct cultivation. This last is not an unimportant point, for cultivation by owners is definitely more productive than cultivation by tenants.[3]

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[1] In the Agra Province *sir* generally represents land in which the landowner acquired rights in or before 1926, through varying periods of cultivation by himself, or by his servants with his own stock, or by hired labour. Once land is recorded as *sir* it can be sublet for any period without ceasing to be *sir*. The method of assessing *khudkasht* and *sir* is briefly explained in Note D at page 218.

[2] Note, dated 30th November, 1900, and published in *Land Revenue Policy of the Indian Government* 1902, page 85.

[3] See paragraph 81.

The future course of prices.

132. If these two recommendations are accepted, the small holder will receive all the relief he requires except in respect of prices. We must now consider this important factor. Professor Brij Narain, whose opinion as a Professor of Economics is entitled to respect, contended before us that there was no possibility of a period of high prices returning during the next forty years. This assumes a prescience to which we at least can lay no claim and ignores the unhappy possibility of war, which might greatl inflate the price of such commodities as wheat and cotton. At the same time, we must admit that the immediate prospects of both wheat or cotton are not rosy. It is true that the export of wheat increased greatly in 1936-37, and still further in 1937-38;[1] but with many countries doing their best to increase their own supply of wheat, the foreign market is a most uncertain one, and this is even truer of cotton. This would matter less if the internal demand for wheat and cotton could be developed, but for this the purchasing power of the country will have to be increased and that, as Professor Brij Narain admits, is far too big a problem to be affected either one way or the other by changes in the land revenue system. On the other hand, as the last eight years show only too clearly, the payment of land revenue may be greatly affected by the price of wheat and cotton.

The sliding scale and remissions.

133. During these years large remissions of land revenue, amounting to 190 lakhs, have been given to ease the situation caused by the depression. Since it is impossible to foretell the course of prices, we have recommended in another chapter[2] that the sliding scale system should be extended to all districts re-assessed during the next ten years, and that meanwhile remissions should continue to be given on the same lines as before, so far as prices may make this necessary. For reasons given in the same chapter we are not in favour of extending the sliding scale to the whole province forthwith.[3]

Proposed temporary relief for the owner-cultivator.

134. Whether further remissions on account of prices will be needed or not, we consider that the small owner-cultivator throughout the province requires a breathing space in which to repair his diminished resources, apparent, to take but one example, in a tendency here and there to substitute the buffalo at the plough for the more expensive and efficient bullock. We recommend, therefore, in further relief of the small owner who

[1]The amount of wheat booked from Punjab stations to Karachi was 77,984 tons in 1935-36, 246,645 tons in 1936-37, and 397,250 tons in 1937-38.

[2]Chapter 5.

[3]See paragraph 99.

farms his own land, that land revenue should be reduced as follows :—

	Reduction.
For those paying —	
(*i*) up to Rs. 10	eight annas in the rupee.
(*ii*) over Rs. 10 and not more than Rs. 25.	Rs. 5 irrespective of the amount of land revenue paid.

In the case of (*ii*) we suggest an all round reduction of five rupees, so that all in this category may get as large a remission as anyone in (*i*). This involves giving every one up to twenty rupees a remission of five rupees ; and for the sake of simplicity, which should make the proposal easily understood, we suggest doing the same up to Rs. 25.

The concession to be confined to small owners.

135. We recommend that the relief should be confined to those who do not pay more than Rs. 25 (excluding cesses), partly to keep it within manageable financial limits, but mainly because this figure should cover nearly all our one-plough cultivators outside the canal colonies. Our enquiries show that elsewhere the economic holding, i.e., the holding capable of supporting a family of four or five, may be broadly defined as one on which the land revenue amounts to from twenty to twenty-five rupees. From this point of view a limit of Rs. 25 per revenue payer for the proposed remission is generous, because many holdings have more than one owner, and where, as must often happen in such cases, each owner has not got a family of normal size, the holding, though still small, will be well above the economic limit. Even in the canal colonies the number of those who will benefit will be large ; for instance, in Lyallpur, in spite of a high acreage assessment, 45 per cent pay Rs. 25 or less.[1]

In passing we should note that we recommend relief in terms of the individual revenue payer, and not of the holding, because enquiry shows that the latter would be more complicated to work.

Rent-receivers to be excluded.

136. We strongly recommend that the relief should be rigidly confined to those who farm or cultivate their land. There is little justification for giving it to those who give their land out on rent (in cash or in produce), and their exclusion, by greatly reducing the cost, will make it possible to bring a much

[1]See Appendix I.

larger number of small owner-cultivators within the scope of the relief. The figures given in Appendix II show (1) that 69 per cent of those concerned cultivate or farm their land, and (2) that they pay 74 per cent of the total land revenue involved.[1] On this basis we calculate that the cost will be as follows :—

	If the relief is given—		
	(*a*)	(*b*)	
	Only to those who farm or cultivate their own lands.	To all	Estimated No. of revenue payers under (*a*)
	Lakhs. Rs.	Lakhs. Rs.	Lakhs.
For those who pay—			
(*i*) not more than Rs. 10	29	39	16·23
(*ii*) over Rs. 10 but not more than Rs. 25.	23	30	4·62
Total ..	52	69	20·85

According to these figures our proposal will benefit over two million revenue payers at a cost of about 52 lakhs, and the exclusion of those who do not cultivate or farm land will save seventeen lakhs.

No exemption advisable in favour of rent-receivers unable to cultivate.

137. Harsh though it may sound, we would make no exemption in favour of those who are prevented from doing this owing to either age, infirmity, or sex, as exceptions are bound to lead to abuse.

Concession to be confined to *khudkasht* land.

138. The relief should also be given only in respect of land which is *khudkasht*, i.e., land which is either farmed or cultivated by the owner. If, for example, a man owns fifteen acres on which he pays twenty rupees, but leases out part of it on which he pays ten rupees, he should get relief in respect of only ten rupees.

Treatment of mortgagees.

139. No one should be entitled to any relief in respect of any land taken on mortgage, even if he cultivates it himself. On the other hand, the land revenue payable on all land mortgaged with possession should be taken into consideration

[1] We have no figures for the Rs. 20 to Rs. 25 class, but these are the percentages for those who pay thirty rupees or less, and they are not very different for those who pay up to twenty rupees.

for calculating whether the mortgagee is entitled to relief in respect of any other land which he may own. We make this recommendation because we consider that, if a man can afford to take land on mortgage, he is unlikely to require relief. In his case, therefore, we would reduce it to a minimum.

Calculation of the relief when land revenue is fluctuating.

140. Where the land revenue is fluctuating, the relief should be based upon the average amount paid during the period for which figures are available subject to a maximum of three years.

Treatment of those who own land in more than one district.

141. It is a question whether in considering relief all the land owned by the person concerned should be taken into consideration, or only the land owned by him in the district in question. The latter would be simple and obviate much correspondence between districts, but we do not think it would be fair either to the exchequer or to landowners as a whole; for it would mean that many who owned land in a canal colony as well as in their home district would get relief to which they were not entitled, while others less well off would not get it. This could hardly fail to cause heartburning. We, therefore, recommend that all land owned in the province wherever situated, should be taken into consideration. This should reduce the cost of our proposal, for our estimate is based upon district figures which take no account of land owned outside each district. We have no means of judging what the reduction will be; but, considering the very large number of those who own land in a canal colony as well as in their home district, it can hardly fail to be substantial and may well reduce the total cost of the relief by five lakhs. If the proposal made in paragraph 173 for a temporary surcharge on the larger owners is accepted, there should be a further reduction of over six lakhs. If it is not accepted, we would limit the relief to those who pay twenty rupees or less. This will save about 4½ lakhs. Broadly, our idea in making this proposal is to limit the relief to about forty lakhs a year.

Treatment of occupancy tenants.

142. We have considered whether occupancy tenants who pay the equivalent of land revenue as rent should get relief on the same terms as owners. We do not recommend this, for though their rent is measured in terms of land revenue, they are not responsible for its payment; and it would involve giving them preferential treatment over occupancy tenants who pay rent in other forms. Moreover, it would introduce an undesirable complication into the scheme, a merit of which is its comparative simplicity.

Basis for determining relief.

143. The list of those entitled to relief should be based on the latest attested quadrennial *jamabandi* at the time of the publication of our report. We attach importance to this point, for it will prevent all possibility of collusion between owner and *patwari* to get the benefit of the relief. A possible alternative would be to base the list upon the *khasra girdawari*[1] of the last two harvests. Though this would have the advantage of relating the relief more closely to existing conditions, we do not recommend it, for—

(*a*) the compilation of the necessary lists will be more complicated and therefore more liable to error ; and

(*b*) a presumption of accuracy does not attach to the *khasra girdawari* as it does to the *jamabandi*[2].

Employment of special staff.

144. Even if the relief is based upon the *jamabandi*, the lists of those entitled to relief will require the most careful preparation and check. In view of the large sum involved, we consider that this should be done under the direct control of a responsible Revenue Officer, and for this purpose we think that it will be necessary to appoint at least one additional Revenue Assistant temporarily to each division. After the lists have been finally approved no change should be made in them during the period of relief, except to give effect to properly attested succession cases. Every other kind of alienation should be ignored otherwise there will be risk of complication and fraud.

The relief should not be permanent.

145. We do not recommend relief being given in this form on a permanent basis, since our main ground in recommending it is to afford the small owner-occupier a breathing space in which to recover from the devastating economic effects of the fall in prices. Moreover, while it is possible in the case of a temporary measure to discriminate between *khudkasht* and other land without fear of collusion, since this can be done on the basis of existing records, it will be wellnigh impossible in the case of a permanent measure. We, therefore, recommend it for only five years. The total cost then should not exceed two crores.

Its relation to the permanent relief measure.

146. If anything of this nature is to be done on a permanent basis, it should be done on the lines of the proposal recommended in paragraph 129. If that proposal is adopted in any district during the currency of the

[1]The harvest inspection register.

[2]The register of owners and tenants holdings.

present proposal, it should take the place of the latter. It is somewhat less generous than what is proposed here, but as against that it will go hand in hand with re-assessment on a quarter-net assets basis.

Its effect on (*a*) jagirs.

147. Groups of *jagirdars* who have been assigned the land revenue of particular areas appeared before us in more than one district and urged that they should not suffer from any relief that Government was pleased to give the small owner. The position of the *jagirdar* in regard to the land revenue has been described above[1]. These particular *jagirdars* admitted that they could not claim compensation as a right, as it was a condition of their grants that they should get only the amount of land revenue actually paid. They claimed it, however, as an act of indulgence in view of their past services to Government. So far as our proposal for temporary relief is concerned, we would not show them any indulgence, believing that it is only right that they should share with Government the cost of giving relief to those much less well off than themselves. So far as permanent relief is concerned, the Settlement Officer will be at liberty to consider each case on its merits and submit proposals to Government, if he thinks fit.

(*b*) Local rate.

148. Finally, we must consider whether our proposals should affect the local rate. The orders contained in paragraph 578 of the Land Administration Manual contemplate that the local rate will not be remitted except in very rare cases. It is laid down that " in all but the most exceptional circumstances, if the whole of the land revenue is suspended or remitted, the local rate will be suspended ; if only part of the land revenue is suspended, the local rate will be collected ; and when any part of the land revenue is collected the local rate account will be cleared." In the case of fluctuating land revenue, Government has recently stated that the local rate " is calculated on the amount assessed according to rates fixed at settlement, and therefore is not affected by the grant of special remissions." So far as our proposal for temporary relief is concerned, the amount remitted will be only a part of the demand on small holdings. Therefore, according to the existing rules, the local rate should be recovered in full. The position will be different in the case of our proposal for permanent relief. The local rate will then be governed by the actual amount finally assessed.

[1]Paragraph 11.

CHAPTER 8.

Exemption from the payment of Land Revenue.

Exemption in terms of income.

149. Many of our witnesses have urged that the smallest holders should be altogether exempted from the payment of land revenue. Those who are in favour of assessment on income-tax principles advocate this on the analogy that incomes below a certain limit are exempt from income-tax, and some would have the same limit viz., Rs. 2,000. On the quarter net assets basis this would roughly mean the exemption of all who paid less than Rs. 500 in land revenue. Out of 34 lakhs of land revenue payers hardly 3,000 would remain, and land revenue would be reduced from 4½ crores to thirty or forty lakhs. These figures need no comment.

The most moderate advocates of this system would exempt all incomes up to Rs. 250; but even this, we estimate, would result in a loss of well over 2½ crores. As we have already expressed ourselves emphatically against the application of income-tax principles to the assessment of land revenue, we need not pursue these proposals further. On fiscal grounds alone they are obviously impracticable.

Exemption in terms of land revenue.

150. The most feasible method of exemption would be to base it upon the payment of land revenue, and this is the course urged by most. The limits suggested vary with the pre-possessions and idiosyncrasies of each witness, but the following figures will show at a glance that even on these lines exemption cannot be carried beyond a most modest figure without far-reaching effects on the budget :—

Cost of exemption.[1]

Amount of land revenue paid by those who pay up to and including	Lakhs.	Number of land revenue payers.
	Rs.	Millions.
(*a*) Rs. 5	32·26	1·76
(*b*) Rs. 10	78·61	2·42
(*c*) Rs. 20	146·89	2·91
(*d*) Rs. 25[2]	170·08	3·14

[1]These figures take no account of land owned by a revenue payer in more than one district.

[2]No figures are available for the Rs. 20 to Rs. 25 class. We have therefore taken half the figures for the twenty to thirty rupees class and added accordingly.

Even if exemption is restricted to those who pay no more than five rupees, it will cost 32 lakhs. This would be reduced by eleven or twelve lakhs if the 625,000 who do not farm or cultivate their land were excluded. For all four categories taken together the figures given in Appendix II suggest that 31 per cent do not farm or cultivate their land, but give it out on rent. Their exclusion, therefore, would mean a great reduction in cost, but it would also lead to the difficulties described in paragraph 129. For this reason we consider that in any case exemption should not be granted on this basis as a permanent measure; and as a temporary measure it is open to the grave objection that it would be difficult to re-introduce payment once the sweets of owning land without payment had been tasted.

Fiscal considerations and the example of France.

151. The number of land revenue payers in the lowest categories is so large —24 out of 34 lakhs— that it is tempting to recommend their exemption; but, taking a long view of the interests of the province and bearing in mind what is said in chapter ten[1] about the needs of the people, we cannot think that this course would be wise. In a poor country like India, the amount of revenue that can be raised from the better-to-do classes is not very large, and the process commonly known as 'soaking the rich', which is fruitful enough in a wealthy country like England, has only a very limited scope. If any considerable sum has to be raised, it cannot easily be done without spreading the fiscal net over the whole community and levying a small sum from as many people as possible. There is nothing in this opposed to modern conceptions of social justice, for all civilized Governments nowadays exact some contribution for the maintenance of the State from rich and poor alike, if only in the form of compulsory military service. Exemption of holdings paying less than ten francs (then a little over five rupees) was actually tried in France in 1898. "The measure" to quote Sir Edward Maclagan[2] "was at once denounced by an eminent economist as one of '*vile courtisanerie electorale*[3]', and by another it was quoted as an example of the legislative encouragement of proletariat holdings." In time wiser counsels prevailed, and in 1921 the whole scheme, which included proportionate reductions for holdings up to 25 francs, was rescinded.

The landowner's privileged position.

152. Where the ownership of land is concerned there is a special reason for making all concerned contribute. Land has a monopoly value, and it is reasonable that those who enjoy it unmolested should pay something to the community for a privilege

[1]Pagragraph 185, page 89.

[2]See Note C, page 178.

[3]Vile electoral harlotry.

which derives its very existence from the community. In the Punjab, there is the further reason that in the last forty years Act after Act has been passed, with ample justification no doubt, to maintain the peasant on his land and to protect him in the enjoyment of its income and amenities. As the result of these various measures, the land of an agriculturist cannot be sold in execution of a money decree or mortgaged to a non-agriculturist for more than twenty years. A landowner cannot be evicted by a civil court without the intervention of the revenue authority, and he is entitled to retain enough land for the maintenance of himself and his family. His plough cattle, implements, and seed cannot be attached. If he is sued and his interest charges exceed certain statutory limits, they can be reduced. The burden of proving that consideration has passed is on the money-lender, nor can a decree be passed against him for more than twice the principal. When he dies, his ancestral land is not liable for the payment of his debts unless charged upon it. Finally, under an Act of 1934, Conciliation Boards are being set up all over the province to settle his debts.

The incidence of land revenue on the small owner.

153. This is a highly privileged position, which no other class enjoys. The landowner cannot, therefore, legitimately complain if in return he is required to make some contribution to the State. How much this contribution should be must depend upon fiscal considerations. With these we are not directly concerned, but we may point out that in the case of over seventy per cent the contribution does not exceed ten rupees and averages little more than three rupees, while with over fifty per cent it is less than two rupees. Judged by any standard, this charge can scarcely be regarded as excessive.

Economic and psychological effects of exemption.

154. From this follows another important point. Though exemption would benefit a very large number of people, it would benefit most of them to an almost negligible extent. Nearly twenty per cent of our revenue payers own less than one acre of cultivated land[1] and the average land revenue per cultivated acre is only Re. 1-9-0. If the limit of exemption were five rupees over seventeen lakhs of owners would benefit, but most of them to the extent of less than two rupees each, and even if the limit were ten rupees the benefit for most would not be much greater. It is possible that in a district like Kangra, where holdings are minute and the standard of living is low, this relief might have some slight economic effect, but if the object were to help the small owner to maintain or improve

[1]Enquiry in 1923 suggested a percentage of eighteen (*Punjab Board Economic Enquiry Rural Publication No. 4*, page 3); it has probably increased since.

his standard of living, exemptions from the payment of a few rupees could not possibly achieve this. It is generally agreed that from this point of view nothing less than two or three rupees a month would serve any practical purpose. Psychologically, exemption would at first have a great effect, and therein lies its temptation. But like a summer shower its beneficial effect would soon pass, leaving, however, a serious breach in the provincial budget and probably, too, a feeling of discontent amongst those on the margin of exemption. Sooner or later there would be strong political agitation amongst the lakhs of small holders who pay from ten to twenty-five rupees to raise the limit, and it will not be easy to resist it on any principle that did not apply to those already exempted. Yet to give way would cost 1½ crores, a sum which with the gradual subdivision of holdings may easily swell to two crores or nearly half the land revenue.

Effect on partitions.

155. No one disputes that exemption will lead to an increase of partitions, many of which will be of a more or less fictitious character. Income-tax experience suggests, for instance, that many will make over part of their property to their children or their wives. To frustrate this, some would forbid partitions altogether during the period of settlement except on the ground of inheritance. The result would probably be a spate of partitions immediately before a settlement, and in between two settlements difficulties must infallibly arise, since inheritance is far from being the only valid reason for partition. Others would allow the right of partition as at present but would withdraw exemption from those exercising it without sufficient justification. Of this the Collector would presumably have to be the judge, subject to appeal. It is not clear, however, whether in these cases exemption should be refused indefinitely or only until the next settlement. Both courses bristle with difficulties. Another objection to this proposal is that it would add considerably to the work of the revenue authorities. There are 800,000 mutations, including 90,000[1] sales, a year ; and in the single district of Rawalpindi there have been over 12,000 partitions in thirty years. Finally, it will introduce a further complication into our land revenue administration, which is already sufficiently complicated.

The danger of fictitious partitions will be much greater if exemption is based on the holding, which is often joint, and not on the individual revenue payer. For this reason we regard the latter as the only possible basis, and no one disputes this.

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[1] Average of the two years ending 1936-37.

156. If an effect of exemption is more numerous partitions, another must be an increase in the number of uneconomic holdings. This is a grave objection, for the uneconomic holding, with its almost inevitable fragmentation, is the curse of Punjab agriculture. One witness suggests that exemption should only be allowed when a person's land ;

Effect on holdings.

(*a*) has been consolidated into a single field ;
(*b*) constitutes an economic holding, i.e., is sufficient to support him and his family ; and
(*c*) is declared impartible for ever.

There would be much to be said for exemption on these conditions. It would then set a premium on the economic holding and secure its indefinite continuance. It would also be in line with the policy followed in such countries as Germany and Denmark, where laws have been passed, in Germany as recently as 1933, to preserve the integrity of the family farm. But nowhere in the province have we found the least disposition to accept any restriction whatever upon the laws of inheritance for this purpose, though necessity may in time produce a change. Consequently, the proposal belongs much more to the future than to the present.

157. Exemption will involve administrative difficulties almost as formidable as the fiscal. It may be simple enough to draw up the initial exemption list, and if this is done on the basis of the last attested *jamabandi*, there should be no danger of collusion between revenue payer and *patwari*. But the position will be very different when the list has to be revised. How often is this to be done? If it is done on every partition, alienation or succession, there will be a great increase of work and also of complication in the revenue records, which, as it is, are in danger of serious deterioration ; and as Sir Geoffrey de Montmorency observes in his note, [1] "the land revenue roll would never attain any approximation of correctness or finality ; and the opportunities for error, corruption and chicanery would be unlimited". Even if revision were undertaken only once in four years with the revision of the *jamabandi*, these evils would only be very partially mitigated. The alternative of deferring all revision until the next settlement, which alone would provide some safeguard against fraud, would lead to every kind of inequality and anomaly, especially if the period of settlement continues to be forty years. All these difficulties will be greatly accentuated if in addition there is any discrimination between those who cultivate or farm their land and those who give it out on rent.

Administrative difficulties.

[1] See Note C, page 180.

158. Further, how are the owners of land in more than one district to be treated? It can be ascertained, without great trouble, how much land revenue a person pays in respect of all the land he owns in a particular district. But if enquiries have to be made from other districts as well and the exemption lists are revised at all frequently, the labour of compiling them will be greatly increased and control of their accuracy correspondingly more difficult. This applies especially to the central districts, where very large numbers of cultivators own land in the canal colonies.

Treatment of those who own land in more than one district.

159. Minor difficulties will arise in connexion with the fluctuating system, which now extends over a very large area, and with collections, which may be expected to become more difficult. Under the fluctuating system a man's land revenue varies with each harvest. Presumably therefore exemption will have to be based upon an average of several harvests. As to collections, the readiness to pay land revenue, which has immensely facilitated its recovery in the past, is likely to be undermined by the sight of thousands of owners being exempted from all payment. This is a psychological point which it would be easy to exaggerate, but which cannot be altogether ignored.

Minor difficulties.

160. There is another psychological point, the importance of which it is difficult to estimate. Two men may be cultivating adjacent fields of the same area and quality and with much the same resources, but one as an owner and the other as a tenant. The former, being an owner, is exempted, while the latter, being a tenant, has not only to give up half his produce as rent, but also to pay half the land revenue. It is difficult to believe that he will not feel some sense of injustice. Logically, no doubt, he should regard the land revenue as part of his rent, but burdened as he is with both, he can hardly fail to contrast himself with his neighbour who is burdened with neither.

Anomalies.

Or take the following case, suggested by Mr. Calvert's note.[1] Three men cultivate twelve acres. The first owns two and rents ten; the second rents twelve and owns none, and the third owns and cultivates twelve acres. The first gets exemption for the two acres that he owns, and the other two get no exemption at all. How are such anomalies to be avoided? As Mr. Calvert points out, relief is needed not for the small owner, but for the small cultivator.

[1]Note C. page 209.

161. In conclusion, we may note that the Indian Taxation Enquiry Committee were opposed to exemption,[1] and we may once more quote Sir Edward Maclagan and Sir Geoffrey de Montmorency, as it would be difficult to find revenue experts of greater experience and distinction. "Once we begin to exempt small holdings from land revenue," says Sir Edward, "we abandon *pro tanto* the theory on which land revenue is based, viz., that it is a 'real' tax on the produce of the land, independently of the amount of income accruing from it to individuals. The chief reason for exempting small incomes from income-tax does not apply in the case of small holdings paying land revenue ..... Exemptions from income-tax, speaking generally, are adopted less as a matter of principle than in order to avoid the appalling harassment and expense which the necessary enquiries into small incomes would entail. In the case of land revenue, on the other hand, the small holdings are dealt with along with the rest; the necessary data have in any case to be provided and the assessment of small holdings entails no extra harassment or expense."[2]

Opinion of Sir Edward Maclagan and Sir Geoffrey de Montmorency.

The second extract is from Sir Geoffrey de Montmorency's opinion and runs thus :—

> "The social reactions of excluding certain holdings from payment of land revenue appear to merit close consideration. They may well prove to be serious. The payment of land revenue in the Punjab has hitherto conveyed the cachet of a certain position in the rural life of the Province—that of a *biswedar*, a member of the proprietary body of a village, one of the class of landed gentry and yeomen of the Punjab, an owner of a hereditament, the title deeds of which are maintained by Government and the extent of which is ascertainable in public document, a right holder in the common land and site of the village, a lord of the menials, a dispenser of the village *malba*, a voice in the village *panchayat*. Settlements are made with the proprietors of an estate; and however lowly may be the share of a small proprietor in a village in the obligation of the assessment it is questionable whether a release from that obligation, except in the form of a *muafi* for honourable service rendered, will not be envisaged by the rustic, as he turns the proposition over in a conservative mind, as endangering his position in the body politic of the village and relegating him to the position of those in the village outside the revenue *parcha* status—the tenants, the village artisans and the menials. There is no question,

[1] *Report* i, 83.

[2] Note C, page 173.

I think, but that a change in the direction suggested will be considered to affect *izzat* in the present state of Punjab Society. Even more serious is the risk that some may apprehend that it may in the long run also affect security of tenure ; and who is wise enough to say that in the whirlpool of time such an apprehension is fantastic ? Certainly experience shows that in periods of great upheavals and excitement less respect is likely to be paid to the ownership of land which contributes nothing to the State : and in such circumstances the origin or justification of a property privilege is forgotten in face of the fact of the vulnerability of its existing situation.''[1]

Effect on the franchise.

162. This vulnerability may be illustrated by the effect of exemption upon the franchise. Even if exemption goes no further than five rupees, it will deprive a certain number of owners of their vote ; and if it goes up to ten rupees, it will deprive a very large number and put them, in this respect, in a worse position than the many tenants who enjoy the vote. Doubtless this can be remedied by amending the Government of India Act, but this is not an easy process even though it can apparently be done by Order in Council.[2]

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[1]Note C, page 178 : see also the last paragraph of Mr. Calvert's opinion at page 216.

[2]The provisions in regard to the franchise are given in Schedule VI of the Government of India Act, 1935, and section 3 (*a*) of Part VI of the Schedule prescribes the minimum qualifications for the inclusion of a landowner in the electoral roll. We are advised that as the franchise provisions fall under section 291 (*b*) of the Act and are regulated by Orders in Council, presumably the sixth Schedule can be amended in the same way.

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CHAPTER 9.

Surcharge on the Larger Owners.

What is meant by the larger owners?

163. In considering this question we must first define what we mean by a larger owner. The Punjab is pre-eminently a province of small owners and this must necessarily affect our conception of ownership in its relation to size. Small owners and large are often differentiated in terms of acreage. In the Punjab this would be most deceptive owing to the great variation in the productivity of the soil with the means of irrigation. An owner of 500 acres in a canal colony is better off than an owner of 5,000 acres in the desert *Thal*. Land Revenue, being based on income, affords a surer guide, and in terms of this we would say that, broadly, those who pay more than Rs. 250 are larger owners. That would cover most owners of more than 50 acres in a canal colony and of more than 200 acres in an unirrigated tract. On this basis the larger landowners would number only about 9,000 out of 34 lakhs.

The large owner.

164. If we were to consider large owners only—again in terms of the Punjab—we should probably have to take Rs. 1,000 as the dividing line, and in that case the number would be reduced to about 800. In some districts it might be possible to take less, but nothing under Rs. 1,000 would be appropriate for the canal colonies, for there no owner of less than ten rectangles (250 acres) would be regarded as a large owner, and in Lyallpur Rs. 1,000 would hardly cover this.

The number of large owners is so small and the amount of land revenue they pay (about thirty lakhs) is relatively so insignificant that it would, we consider, serve very little purpose to put any extra charge upon them alone. The proposal must, therefore, be considered in somewhat wider terms.

An income-tax on agricultural income.

165. There are two ways in which an extra charge might be imposed. The one most consonant with modern methods of taxation would be to levy a special tax upon agricultural income, which is exempt from ordinary income-tax. This has just been done in Bihar, and if this were done in the Punjab, the income-tax system would furnish the necessary analogy and model. Each landowner would be separately assessed according to whatever rates were imposed and, assuming rates graduated according to his income, his non-agricultral income would presumably be taken into account for determining the appropriate rate. This would involve the employment of a special assessing agency, anyhow in districts like Shahpur and Multan where the number

of assessees would be considerable, and provision would have to be made for appeal and revision. All the more or less inquisitorial procedure of income-tax would also have to be introduced with its elaboration of enquiries, forms and accounts ; and the enquiries would have to cover marginal cases, since non-agricultural income might bring them within the scope of the tax.

A graduated surcharge.

166. A much simpler method would be to impose a graduated surcharge upon the amount of land revenue due at present. This would avoid nearly all the elaboration of the first method and require little, if any, extra staff, and being cheaper to collect it would probably bring in as much to the exchequer. If this system were applied, we think the following rates appropriate :—

Those paying over—	Annas in the rupees.	Percentage increase.
(*a*) Rs. 250, but not more than Rs. 500.	1	6¼
(*b*) Rs. 500, but not more than Rs. 1,000.	2	12½
(*c*) Rs. 1,000, but not more than Rs. 5,000.	3	18¾
(*d*) Rs. 5,000	4	25

An advantage of these rates is that they do not make the ascent in taxation so steep as to be a strong temptation to evasion, and the maximum is not unduly high. At each change in rate the extra charge due should be so graded that no one would gain by alienating a small portion of his land.

Its yield.

167. According to such figures as are available, which, however, take no account of land owned in more than one district, these rates would produce barely 6½ lakhs, thus :—

	Lakhs.
Class (*a*)	1·38
,, (*b*)	1·57
,, (*c*)	2·56
,, (*d*)	·95
Total ..	6·46

The most striking point about these figures is that the total yield is less than two per cent of the land revenue of the province (4½ crores[1]).

Advantages of a surcharge.

168. The following points may be urged in favour of the surcharge. Firstly, it is in harmony with the modern principle that the well-to-do should pay much more relatively than those with comparatively small means ; and it will hardly be disputed that the landowner who pays over Rs. 250 in land revenue is likely to be much better off than the one who pays fifty rupees or less. Secondly, a surcharge would to some extent facilitate the grant of relief to the small owner. In innumerable cases, as already observed, the latter is a tenant as well as an owner. As a tenant he has felt the effect of the fall in prices much more severely than the landlord. This is illustrated by the following figures which relate to twelve holdings in seven districts[2] :—

	Percentage of the total net income earned by	
	Landlord.	Tenant.
1934-35	61	39
1935-36	60	40

Thirdly, the surcharge might act as a much needed spur to the larger landlords to develop their estates in order to meet the extra charge imposed upon them ; and even if they partition them to avoid the surcharge, this should also lead to their better development. Lastly, to quote Sir Edward Maclagan again, " in several European countries (Prussia, for instance, and Austria) the larger landed properties are, or recently were, liable to income-tax in addition to land revenue."[3]

In disadvantages.

169. Against the surcharge the following points are urged :—

(*a*) The land revenue already absorbs 25 per cent or more of net income.

[1] Excluding assigned land revenue (36 lakhs).

[2] *Farm Accounts in the Punjab* :—

1934-35 and 1935-36, Statement XI. The accounts for 1935-36 are in the press and have not yet been published.

[3] Note C, page 174.

(*b*) The large landowner, owing to the standard of living forced upon him by custom, already finds it sufficiently difficult to make both ends meet and most large owners are in debt.

The latter is undoubtedly the case.

(*c*) Already in assessment some discrimination is exercised in favour of the small holder.

This is true, though the discrimination is necessarily very limited.

(*d*) In certain areas, notably in the south-west, custom imposes considerable obligations by way of hospitality and charity on the larger landlords.

(*e*) Part of the surcharge at least will be passed on to the landlord's tenants, especially where, as in the canal colonies, the general practice is for tenants to pay half the land revenue.

(*f*) In one way or another the tax will be evaded, or avoided, by the less scrupulous.

(*g*) The tax will be very unpopular and will produce very little.

170. The first of these objections certainly has force. But it must be remembered that the reduction of the net assets ratio to 25 per cent will in time confer a very substantial benefit on the larger owners, and if the past repeats itself, the benefit, with its consequent increase in credit, is likely in many cases sooner or later to lead to an increase of debt. That most of the larger landowners are in debt is not, in our opinion, an argument against the surcharge. When it is considered that most of this debt has been incurred for non-productive, if not actually extravagant purposes, it may even be an argument to the contrary.

Indebtedness of large owners.

171. The last objection seems to us the strongest. We feel that, if so novel a principle as a surcharge is to be introduced into our land revenue system, the surcharge could not start at a lower level than Rs. 250. In time, when the principle has established itself, it might be possible to go down to Rs. 100, but even this at one anna in the rupee, would bring in only another $3\frac{1}{2}$ lakhs. Nor initially, could we advise higher rates than those suggested above. This being so, it is for serious consideration whether it is worthwhile to introduce an entirely new principle into our system, which must naturally be very unpopular with those affected and may well lead to a certain amount of evasion, for the sake of adding a few lakhs to a revenue charge of $4\frac{1}{2}$ crores. In our judgment, we think it would be a mistake to do this as a permanent measure, especially as the tax must, in the passage of

Its low yield.

time, be a diminishing asset, owing to the inevitable splitting up of estates under the existing laws of inheritance.

A temporary surcharge.

172. At the same time we think that there is much to be said for imposing a surcharge as a temporary measure in support of the scheme of relief recommended in paragraph 134. This scheme is designed to give relief to a large number of small owners for five years, but should, we think, be limited to an expenditure of forty lakhs a year. This will only be possible if a sufficient surcharge is imposed, or the relief is limited to those who pay no more than twenty rupees in land revenue. In that case about 70,000 small owners will be affected, as our scheme contemplates relief being given up to Rs. 25.

Recommendation.

173. We recommend, therefore, that a surcharge should be imposed for five years as in paragraph 166. This will, we hope, appear a very modest proposal compared with that embodied in the Bill recently introduced into the United Provinces Legislative Assembly, which, we understand, will involve the land revenue of those who pay over Rs. 1,500 being increased by about 66 per cent. Our proposal provides for a maximum increase of only 25 per cent and this will apply only to those who pay over Rs. 5,000 in land revenue.

Revision during the currency of the surcharge.

174. It is a question whether there should be any revision of liability to the surcharge during the five years. If the surcharge were limited to those who paid over Rs. 500, annual revision would not be very difficult, for less than 2,700 owners would be affected. But with the limit of Rs. 250 which we suggest about 9,000 will be affected. It will cause a good deal of complication if their cases are revised every year. To avoid this and for the sake of simplicity, we recommend that no account should be taken of any change during the five years except changes due to succession. This should not involve any very serious anomaly in so short a period.

Effect on tenants.

175. Almost all our witnesses agreed that, if a surcharge were imposed, part of it at least would be passed on to the tenant. Unfortunately, we can hardly doubt that this would happen with a permanent surchage ; but we entertain the hope that, if the surcharge is purely temporary and a strong appeal is made to the good feeling of all concerned, most will refrain from adding any further to the burden of the tenant. Much of our evidence suggests that the landlord is not as alive to the needs of his tenants as he should be. If any part of the surcharge were to be passed on, it would go far to justify this criticism.

CHAPTER 10.

A Small Holders' Development Fund.

Owner and cultivator.

176. In the last chapter we considered measures of direct relief for the small owner. We must now consider measures of indirect relief, and in doing so our attention will be fixed upon the small holder rather than upon the small owner. The difference between the two is important. The small owner is always a revenue payer but not always a cultivator, whereas the small holder is always a cultivator but not always a revenue payer. He may, for instance, be a tenant, and most tenants are small holders. On the other hand, innumerable tenants are also small owners, for the smaller peasant proprietors are mostly obliged to take extra land on lease in order to make both ends meet. Measures of direct relief must necessarily be confined to owners, but there is no reason why measures of indirect relief should be similarly restricted. There is, indeed, much more to be said for assisting the small *cultivator*, irrespective of whether he pays land revenue or not, than the small *owner*, irrespective of whether he cultivates his land or not. Actually, the measure which we propose in this chapter should benefit all who live in the village, but its primary object is to benefit the small holder. By small holder we mean, broadly, a cultivator who has a one-plough, or at most a two-plough holding. In the Punjab the typical peasant proprietor has one plough.[1]

Difficulty of direct relief.

177. Two facts stand out more clearly than any others from our enquiry. The first is that it is impossible to give direct relief on any very wide or substantial scale except at almost prohibitive cost to the provincial revenues. This is because 32 out of 34 lakhs of our revenue-payers pay Rs. 50 or less in land revenue, and 24 lakhs, or almost two-thirds, pay twenty rupees or less. Direct relief, therefore, involves the surrender of very small sums to a host of individuals, most of whom will continue to live in exactly the same way as before. Psychologically, no doubt, the effect would be considerable, but it would soon pass and in a year or two the benefit would be forgotten.

Importance and difficulty of increasing the small holder's net income.

178. The second fact is that a material increase in the small holder's income or a reduction in his expenditure would have a much more marked effect upon his annual budget than any possible remission or reduction of land revenue. Accordingly the long view of assistance to the small

[1]Over eighty per cent of the cultivators cultivate less than fifteen acres (see *Punjab Board of Economic Enquiry, Rural Publication* No. 10, page 4).

holder requires that every possible effort should be made to increase his income and reduce his expenditure. In a country like India where nature is ruthless and custom inexorable, it is a most difficult matter for the individual cultivator to raise his standard of living without the co-operation of his neighbours and the assistance of Government. We may illustrate this by the following quotation from a book[1] about the Punjab peasant :—

> "Not only are nature, religion, and temperament all arrayed against the reformer, but also the whole agricultural and social system of the country. Consider the position of an ordinary Jat, who wishes to apply the new gospel of progress to his land. The five or ten acres that he cultivates are scattered in tiny strips about the village. To make both ends meet he is forced to borrow at 12 to 25 per cent, and as likely as not, when the time comes to repay, death or disease makes it impossible, and sooner or later the moneylender has him in fee. If he wishes to marry, he may have to purchase a wife and will certainly have to spend a year's income or more upon the wedding; and if he has children, he will have to do the same for each of his sons, and not much less for his daughters. If he realizes that to make a five-acre farm pay, it must be intensively cultivated, he is debarred by caste from turning it into a market garden; nor, unless he is a Muhammadan, can he take to stock breeding, one of the great resources of the small holder in Europe. The result is, he follows methods of cultivation that could only maintain him in comfort with a farm three or four times as large. And it is impossible to blame him. The opposing forces are too strong : no one could overcome them single-handed. Combination and organization are therefore a necessity ; and if this is the experience of the West, the necessity is twice as great in the East."

Importance of Government assistance—the Agricultural department.

179. This was written over ten years ago, but in substance it is as true to-day as it was then. If there has been any considerable change since, it is the fact that Government has demonstrated more clearly than ever its ability to help the cultivator by well considered measures. Two examples may be given. By its discovery and distribution of improved varieties of wheat, cotton and cane, the Agricultural Department has increased the income of the cultivator in the Punjab by a sum which, even at the present level of prices, is probably well over half the land revenue of the province and may even be equal to it. Last year, too, it distributed over 300,000 maunds of carefully selected wheat, cotton and gram seed.[2]

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[1] *The Punjab Peasant in Prosperity and Debt* by M. L. Darling (3rd edition), page 155.

[2] Wheat .. 220,500 maunds.
Cotton .. 71,700 „
Gram .. 15,900 „

180. The second example relates to the Co-operative Department. To quote again from the book just mentioned: "One of the most serious causes of debt is the smallness of the average holding, which is greatly aggravated by the way in which it is split up into innumerable fields scattered round the village. It is obviously too late to increase the size of the holdings and with an increasing population they are bound to become even smaller; but there is no reason, except human obstinacy and prejudice, why they should not be consolidated."[1] The Co-operative Department started tackling this immensely difficult task in 1921, and since then, with the unanimous consent of all concerned, it has consolidated about 900,000 acres at a cost, in the last two years, of about Re. 1-8-0 an acre.[2] For many years the whole cost was borne by Government, but the advantages of consolidation are now so keenly appreciated that in many districts villages willingly contribute from eight to ten annas an acre towards the cost. In more than one of these districts we were told that the number of villages under consolidation could be greatly increased were the necessary staff available.[3]

The Co-operative department and the consolidation of holdings.

181. Consolidation is popular because it increases the productivity of the soil more rapidly and more surely than any other measure. The precise increase cannot be gauged, but no competent judge puts it at less than ten per cent and many put it at from twenty to twenty-five per cent. Any one who doubts this should glance at a map of a village before and after consolidation, and he will probably agree that in a badly fragmented village consolidation is an indispensible preliminary to real agricultural progress. "The land is dying," says a French authority writing of such villages in France,[4] and certainly when consolidated it is as if the land were re-born. Wells are sunk, waste land is brought under cultivation, farming becomes more intensive, fruit trees are planted, and boundary disputes almost cease. So great are the benefits that it is hardly an exaggeration to say that they outweigh all other benefits that could be conferred on the village in the same space of time. We are happy, therefore, to be able to record that at the moment funds have been made available, partly through the generosity of the Central Government, for carrying on the work as extensively as is possible with the

Benefits of consolidation.

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[1] *Op. cit.*, page 252.

[2] This is the average of the two years ending 1936-37.

[3] Since the passing of an Act in 1936 allowing the application of compulsion in certain circumstances the Revenue, as well as the Co-operative Department, is doing consolidation and has now a special staff at work in four districts.

[4] P. Caziot: *La Terre à La famille paysanne.*

trained staff available. But these funds mostly derive from non-recurring grants, and there is no certainty that when they are exhausted sufficient funds will be forthcoming to push on this vital work as rapidly as its extreme importance to the small holder demands. The question therefore arises, how can they go on being provided until every badly fragmented village in the province has been consolidated ? This question we will answer presently.

The beneficent departments.

182. Although consolidation is much the quickest way of improving the small owner's economic position, it is far from being the only means of doing this gradually. All the so-called beneficent departments have something valuable to offer him—the Agricultural and Co-operative Departments are typical—and although, as we went round the province, we heard a good deal of criticism of some of these departments, most of it of a very uninstructed character, we are satisfied that there is a general desire that their activities should not be curtailed, though some feel there is considerable scope for economy in their administration. On this point we are not competent to express an opinion, nor need we do so since it will doubtless be considered by the Resources and Retrenchment Committee. What we are concerned to point out is, not merely that their activities should not be curtailed, but that all activities of this kind must be greatly increased if the small holder's two fundamental needs are to be satisfied. These are, first, a substantial increase in his net income ; and, second, a fuller provision of the amenities of civilized life, chief of which is education.

Prosperity without education.

183. We put education first, because we believe that without it all other measures of improvement must ultimately be in vain. For want of it the unexampled prosperity which followed the war left the peasant little better off than he was before and in some tracts actually demoralized him. Crores of rupees slipped through his fingers into the pockets of others with little to show for them but an increase of children and of debt. The rise in the standard of living which should have done something to arrest the increase in population has only accentuated it, and recent enquiry[1] suggests that this is because prosperity and education did not go hand in hand. The tendency, in the case of the uneducated, for every material blessing to be converted into larger families is vividly illustrated by the astonishing increase in population that has taken place since 1921—a matter of six millions in seventeen years.[2] The tendency in its relation to land

[1]By the Board of Economic Enquiry (results not yet published).

[2]In March, 1921, the population was 20·68 millions and in December, 1937, it was 26·42 millions.

revenue was noticed years ago by Baden-Powell.[1] "Nothing can be more curious (he says) than the result of a low assessment. In one large district where a low assessment was secured for thirty years, the result has been not that a wealthy class has arisen, but simply that all restraint has vanished and the poor population has multiplied." "To reduce the Government demand," says another shrewd observer of the seventies, "is to put so much more money in the mortgagee's pockets," and he adds that nowhere is debt greater than in good villages lightly assessed.[2] Lahore is the most lightly assessed district in the province[3] yet in the prosperous twenties its mortgage debt[4] increased more rapidly than that of almost any other district. In Gurgaon, the Ahirs, although they are 'exceptionally heavily assessed,' are much less indebted than the Meos, who are lightly assessed.[5]

Importance of education.

184. The lesson is clear; education is essential to economic progress, so essential that it might almost be said—no education, no remission. We have recommended some remission above, but only as a temporary measure to assist the small owner to repair his greatly diminished resources. Had education been more general and of the right type, we might have felt it possible to recommend remission as a permanent measure in the hope that what was remitted would be applied to genuine economic needs. But, with litigousness and thriftlessness still deeply ingrained in the peasant and with so many parasites ever ready to devour any addition to his living, there is no assurance of this. At the same time his needs loudly call for a new and better order of village life and this requires large expenditure, which can only be provided by Government. It would, therefore, be in the peasant's worst interest for Government to deprive itself of the means of helping him when he is still so little capable of helping himself. And even if he were to develop an entirely new capacity in this respect, he would still require large assistance from Government to satisfy his more important needs.

Salient needs of the village.

185. These needs are many and various, though they vary in degree and kind with each district. There is not a *tahsil* which has all the schools and hospitals (for both man and beast) which it needs Forty-five per cent of our villages are

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[1] *Land Revenue System of British India*, 1882, quoted in the *Punjab Peasant in Prosperity and Debt*, page 232 (3rd edition).

[2] Jhang Settlement Report, 1874—79, page 130.

[3] Lahore Settlement Report. 1916.

[4] See *The Punjab Peasant*, page 232.

[5] Gurgaon Gazetteer, 1910, page 120.

still without a co-operative society, and yet co-operation enables many thousand cultivators to borrow at from six to eight per cent simple interest instead of at eighteen to twenty-five per cent compound. Probably at least ten million acres still require to be consolidated, and there are thousands of villages which would gain more from improved communications than from any feasible remission of land revenue. The Marketing Officer estimates that a metalled road cheapens the transport of cotton by sixteen per cent when the distance is from ten to twenty miles, and by twenty five per cent when it is over twenty miles.[1] Cattle are one of the province's great potential assets, and yet another 15,000 approved bulls are required for our 26 lakhs of cows ; this too, although the Punjab is far better off in this respect than any other province in India. Comparatively few villages have Panchayats or pavements and drains for their lanes. Large tracts in the province are suffering from denudation and erosion so seriously in some areas as to threaten them with ultimate ruin, and yet it has been demonstrated, in one district at least, that with the necessary effort and expenditure the evil can be arrested if not removed. Large areas have also been put out of cultivation by the spread of alkaline salts and by waterlogging due to canal irrigation.[2] Here again measures are being taken of the utmost importance to the inhabitants of the tract, but involving large expenditure. Jullundur and Hoshiarpur, where the small holder has brought *Chahi*[3] cultivation to perfection, are suffering from a fall in the water table which is threatening the whole system of irrigation by well. Finally, there is the village woman's crying need for teachers, doctors, and trained midwives.

Creation of a special fund.

186. These are only some of 'the people's needs' but enough has been said to show that, if a higher, or even an equal standard of living is to be secured for our rapidly increasing population, and if the village is to be given even the simplest amenities of modern civilized life, a large increase of expenditure in rural areas will be required for at least a generation. For this purpose we recommend that a substantial sum should be set aside from general revenues every year and spent upon schemes calculated to increase the small holder's net income and to provide him with the amenities appropriate to village life under modern conditions.

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[1]See an article in *Agriculture and Live stock in India* entitled "Some Aspects of Marketing and cost of Transportation of Cotton," Volume V, part 6, page 696.

[2]In 1936-37 the canal irrigated area affected by *thur* (alkaline salts) and *sem* (waterlogging) was 449,448 acres, of which 214,189 acres have however never been cultivated. 56,148 acres have apparently gone out of cultivation within the last four years.

In the Jhelum district over 12,000 acres have been affected in 35 years by the salt washed down from the Salt Range.

[3]Cultivation done with the help of a well.

Its administration.

187. To secure that the fund shall be spent upon schemes that will be of real benefit to small holders, we recommend that the expenditure in each district should be controlled by a small committee containing at least one representative small holder from each tahsil, who should be chosen by the Deputy Commissioner. The latter should be Chairman and, to provide for the necessary expert advice, the committee should have power to co-opt any local official in an advisory capacity. There should be a Central Board at Lahore to allocate funds and control expenditure. Each Division should be represented on the Board by at least one representative of its small holders, who might be selected by the Commissioner, and the Assembly might elect two or three representatives, who should all be land-owners. The Minister for Development should be Chairman and the Financial Commissioner, Development, Vice-Chairman, and the Board should have the power to co-opt any head of department in an advisory capacity. Schemes costing more than, say, Rs. 5,000, should be subject to the Board's sanction, and whenever necessary the Board should arrange for their execution either through, or with the help of, the appropriate department.

Amount of the fund.

188. As to the amount to be set aside every year, this must necessarily depend upon fiscal considerations, and to some extent on departmental resources. As to the first, 55 lakhs have already been set aside in this year's budget to be spent upon rural reconstruction during the next six years ; as to the second, departmental resources will in some cases have to be expanded to deal with the enlarged programmes that may be expected, and this will take time. We would, therefore, start by setting aside ten lakhs a year, in addition to the 55 lakhs just mentioned, gradually increasing the annual grant until it reaches 25 lakhs. The general aim should be a five crore development grant (apart from the 55 lakhs) spread and spent over 25 years. But there should be no curtailment, in consequence, of any departmental budget or reduction in the annual grants made to District Boards. The fund should be entirely supplementary and applied on much the same lines as the recent Government of India grants for rural reconstruction. It may be urged that with the District Boards there is no need for separate committees. This is to overlook the main object of the scheme, which is to help the small holder. His voice will be more surely heard on a committee of the type suggested above than on the average District Board, and it is *his* voice which should determine how the money is to be spent, if only to ensure his full co-operation.

189. This co-operation is essential to the full success of the scheme. Lakhs of small holders have to be secured better conditions of life, and for this purpose we must mobilize the resources not only of Government but also of the peasant. The chief resource of the peasant is his labour, and there must be few who cannot occasionally give a few days' labour for the improvement of their village. We, therefore, recommend that the distribution of funds should be made conditional upon two-thirds being spent upon a contributory basis ; that is to say, upon schemes to which the people themselves contribute a certain proportion of the cost, which should not be less than a third by way of either labour, produce or cash. An excellent precedent for this may be found in the last Government of India grant for rural reconstruction, and many examples could be given to show how readily villages will contribute to schemes of their own choice carried out under their own eyes. Thousands of rupees have been collected for the consolidation of holdings. In Hoshiarpur, an energetic and resourceful Health Officer has been able, in the last $3\frac{1}{2}$ years, to collect over two lakhs for the improvement of village sanitation and in addition to get all the labour required for this improvement free ; and last year, in Gujrat, a protective embankment 600 feet long and fourteen feet high was made by about twenty villages at a cost to Government of only Rs. 800. Not the least advantage of putting grants of this kind on a contributory basis is that it ensures their being spent upon schemes that are acceptable to the people.

Co-operation of the people.

190. It would be an additional attraction from this point of view if the allocation of funds could be related to the land revenue payments of each *tahsil*. This would be secured if funds were allocated to each *tahsil* in proportion to the land revenue paid by small owners in the *tahsil*. For this purpose we would define a small owner as one who paid not more than Rs. 25.

Relation of the fund to individual villages.

We would go further and guarantee any village, or group of villages, putting forward a suitable scheme a grant equal to their contribution, up to a fixed proportion of the land revenue paid by their small owners as defined above. The proportion would depend upon the ratio which the total sum allocated to the Development Fund bore to the total amount of land revenue paid by small owners throughout the province, and it might be roughly fixed at two-thirds of this ratio. That is to say, if the total sum set aside by Government amounted to three annas of the land revenue paid by small owners throughout the province, the guarantee would be limited to two annas in the rupee paid

by the small owners in the particular village or villages. This should add greatly to the popularity of the scheme.

Importance of the recommendation.

191. We attach great importance to the scheme, for most of our more intelligent witnesses agreed, as indeed can hardly be denied, that in the long run money spent in this way was likely to do more good to the smal holder than any sum of land revenue which could in practice be remitted. We put our recommendation for direct relief first, because it is a temporary measure necessitated, as we believe, by the fall in prices. The Small Holder's Development Board we recommend as a permanent measure, because we are convinced that ultimately it is only through increased expenditure on the part of Government, in close co-operation with the people, that the lot of the small holder can be lastingly improved, or in fact saved from deterioration owing to the great increase in population.[1]

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[1]After writing the above, we came across the following passage, in a book written with wide knowledge of the problems of the Near East which endorses the principle underlying what is said above:—"All economic reforms in the Orient are dependent on the training and instruction of the population under state guidance by precept and practice, and with active state assistance in the modernization of the economic system." (Hans Kahn, *Western Civilization in the Near East*, 1936, page 159.)

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CHAPTER 11.

Miscellaneous Measures.

The Term of Settlement.

We have some further measures to consider in connexion with relief to the small owner. One touches the term of Settlement and is important. This we take first.

Historical.

192. The term of settlement varies from province to province. It was fixed at thirty years in Bombay in 1837, and the same period was adopted somewhat later in the United Provinces, but in the Punjab twenty years was originally the recognized rule in the greater part of the province.[1] The whole question came under examination in 1895, and it was then decided by the Secretary of State that thirty years should continue to be the ordinary term in Madras, Bombay, and the United Provinces, and twenty in the Punjab with thirty years in special cases. This arrangement continued in the Punjab until 1928 when the period was fixed by statute at forty years. The same change was made in the United Provinces a year later.

Deterioration of the village records.

193. Most of our witnesses who have settlement experience are of opinion that forty years is too long a period, if the accuracy of our revenue records is to be maintained at its old high standard. It is one of the greatest blessings conferred upon the province by British rule that it enjoys a system of land registration as cheap and simple as any in the world; and so accurate that the record of rights is presumptive proof of title. There is, however, reason to fear that, owing to various causes, this standard of accuracy has deteriorated and is in danger of still further deterioration. This is the most disturbing fact that our enquiries have brought to light and we would draw the special attention of Government to it. It is significant that the deterioration is most marked in districts where the last settlement has been running for over thirty years.

Importance of their accuracy.

194. It was once observed by an Inspector-General of Police that revenue justice was even more important than criminal justice, since injustice in regard to rights in land may damage a family for generations. Whether this is so or not, there can be no doubt that an accurate revenue record greatly facilitates the administration of justice in all its forms, and in a province in which the peasant is apt to rush to the courts on the slightest pretext and to take the law into his

[1] *Imperial Gazetteer of India*, iv. 230.

own hands if justice miscarries, an inaccurate record may well lead to an increase of crime. The Indian Taxation Enquiry Committee were of the same opinion. "The justification of the high cost of settlement and collectorate establishments (they write) must be looked for in the great advantages derived from the maintenance of the record of rights and the protection of the interests of the poorer cultivator, in the avoidance of disputes and even riots over questions connected with the possession of land".[1] For the small owner, therefore, if not for the large, there is real danger in extending the term of settlement, unless some sure means can be devised of maintaining the accuracy of the village records throughout the period. This is a highly technical question, which requires fuller and more careful investigation than we were able to make.

Lack of revenue officials with settlement experience.

195. One cause, however, of the deterioration that has taken place was brought prominently to our notice; namely, that owing to the small number of settlements that have been done in the last ten years, the province is suffering from a shortage of men thoroughly versed in the complications of the village records and in revenue practice generally. The position should be greatly improved if all the settlements that expire during the next ten years are re-done at the proper date. But after 1949, owing to the forty-year period, only two districts will come under settlement until 1964. We shall then have a return of the present position, which all competent judges agree is most unsatisfactory.

Settlements and the enhancement of revenue.

196. Another and only less important aspect of the whole question is whether it is in the real interest of the ordinary land revenue payer that his assessment should be revised only once every forty years. The demand for a forty-year term appears to have been due largely to two factors. Until the fall in prices settlements were always followed by an enhancement of land revenue. This was the inevitable outcome of the steady rise in prices and the rapid development of the province. The unfortunate result is a widespread popular conviction that enhancement follows settlement as surely as night follows day. Although economic conditions have completely changed with the fall in prices, the conviction still persists, and Government has done little to shake it. It is true that the re-settlement of the Lyallpur and Montgomery districts has for the time being resulted in reduction, thanks to the operation of the sliding scale system, but in both cases the standard demand has been

[1] *Report*, i·76.

considerably increased and this has not passed unnoticed. We think it desirable that Government should make it unmistakably clear that re-settlement will not necessarily involve enhancement and will in no case be postponed simply because it might involve reduction.

The harassment of a settlement.

197. The other factor is the harassment to the people involved in a settlement and its field to field remeasurements. A settlement can only be carried out by a special staff and generally lasts from three to four years. It is freely said that during this period the district is subjected to trouble and expenditure of a more or less vexatious character. The extent of the evil varies no doubt with the control exercised over the staff, and in some settlements there is little or no complaint, but in general settlement operations are much criticized on this ground. With, however, the spread of education and political consciousness, this evil should greatly diminish. The cost to Government, which since the war has averaged 1·8 lakhs per settlement, is also emphasized.

Remedy for specific changes during the period of settlement.

198. There is another consideration. In a country like India the vicissitudes and operations of nature are so great and on so violent a scale that great changes are liable to occur even in a generation. The spread of salts over a vast tract in the central Punjab, at the rate now of 25,000 acres a year, and the salinization of over 12,000 acres in the Jhelum district in the last 35 years are examples of this. It is true that section 59 (1) (*d*) of the Land Revenue Act provides for the revision of a settlement in cases of great change due to "the action of water or sand or of calamity of season", but our expert witnesses agree that for one reason or another the provision has almost entirely failed of its purpose; at worst it is not applied at all, and at best, only after much delay. We recommend, therefore, that the attention of Collectors should be drawn to it and that they should be instructed to submit proposals for its application as soon as circumstances in any part of their district justify this. We recommend, too, that before concluding his settlement every settlement officer should be required to state whether he considers that his assessment should be reviewed (not necessarily revised) in any area after a fixed period of years owing to the security of the area being threatened in any way. This was done by the Settlement Officer, *proprio motu*, in the recent Lyallpur settlement in regard to a tract which was threatened by *thur*.[1]

[1]Either sodium chloride or sodium sulphate.

General changes during the period of settlement.

199. Even if these instructions are issued and observed there must necessarily be a considerable lag between the appearance of deterioration and the revision of assessment. Moreover, on the one hand, yields may definitely increase owing to the spread of better varieties of crops and improved methods of farming, and on the other, the properties of the soil may deteriorate owing to the effects of canal irrigation, or an important crop may be threatened by disease. The case of gram in the *Thal* is a good example of both. Its introduction about thirty years ago revolutionized the agriculture of an extensive tract to the great advantage of the inhabitants. Now gram blight suddenly threatens to make its cultivation impossible, for some years at least. Then, too, there are the gradual changes that take place in individual villages, some improving, others deteriorating. For such the only remedy is re-settlement, and it may be said that, if this is properly done, it is the best means of securing fiscal justice not only as between Government and owner, but also as between owner and owner.

Recommendation in favour of shorter settlements.

200. Accordingly, from more than one point of view we are in favour of a return to the old practice. But the return should be accompanied by a firm determination on the part of Government not only to refrain from enhancing assessments without ample justification, but also gradually to adjust its budget position to a lower scale of land revenue. One of our recommendations involves this process being started forthwith by giving the small owner-cultivator in future settlements a remission of 25 per cent. It will be difficult to do this with forty-year assessments, since, for the reasons given in paragraph 129, we are strongly opposed to periodic revision during the term of settlement and a forty-year term is likely to result in so many anomalies that the scheme may be unworkable. Other changes in the same direction may be expected in the next thirty or forty years, and they can be introduced more rapidly over the whole province with short than with long settlements.

We recommend therefore that, as before 1928, districts should be re-settled every twenty or thirty years. Where *killabandi*[1] with its great simplification has been introduced, thirty years might be appropriate, but elsewhere the period should probably be not more than twenty or 25 years. This change should be of great advantage to the small owner and, if the necessary measures are taken, should go far to ensure the accuracy of the revenue records, upon which the peace of village life to a considerable extent depends.

[1]The substitution of rectangular fields of a uniform size for the irregular fields of haphazard shape into which the lands of a village are ordinarily found to be divided. The size of the regular fields laid out is always a twenty-fifth part of what is termed a square (27·7 acres) or a rectangle (25 acres).

201. If, on the other hand, it is decided to adhere to forty years, we recommend that the revenue record should be revised every twenty years, i.e., not only at settlement but half way through the period of each settlement. We understand, however, that the revision of the record will not be much less costly than revision-cum-assessment. If so, it might be more economical as well as more just to revert to shorter periods of re-settlement.

Revision of the records.

State Loans to Agriculturists.

202. The fact that land revenue is a charge upon land and varies with its productivity has always acted as a powerful stimulus to an intelligent ruler to encourage and develop cultivation. But cultivation cannot be carried on without borrowing or developed without capital; and in both cases the high rates of interest which have to be paid result in chronic debt. State loans at cheap rates have, therefore, for many years been an integral part of our land revenue system.

The necessity for loans.

203. These loans are advanced under two Acts: under the Land Improvement Loans Act of 1883 for the improvement of land, and under the Agriculturists Loans Act of 1884 for the purchase of bullocks, seed, and fodder. The most common form of improvement is the sinking of wells. The rate of interest varies with the rate at which the Government can borrow; at present it is in both cases four per cent. The rules for obtaining loans have been made as liberal and as simple as possible. Application can be made orally or in writing to revenue officers on tour or at headquarters. If a person wishes to borrow to improve his land and the land is of sufficient value, no other security is demanded. For ordinary loans personal security is accepted. When seed or fodder are required, they are sometimes advanced in kind, and in every case repayment can be made by instalments.

The present system.

204. In theory, therefore, the system is perfect. Yet it is not popular. The village surveys done by the Punjab Board of Economic Enquiry show this clearly enough;[1] as, too, the fact that out of 15,781 wells constructed in the last five years only nine per cent have been sunk with the help of Government loans. The Punjab Banking Enquiry Committee noted the same feature eight years ago and said it was due, firstly, to the petty exactions of the subordinate revenue staff, which add "at least 3 or 4 per cent" to the rate of interest; secondly, to the delay that occurs in obtaining

Its unpopularity.

[1] *Punjab Village Surveys No. II*, pages 119-20.

loans, and, thirdly, to " the necessity of having to repay on a fixed date".[1] To this we may add that the average Revenue Officer seldom takes any real interest in the grant of these loans and tends to leave the work to his subordinates. Too little account, also, is taken of harvest conditions and of the borrower's ability to repay when an instalment is due, and coercive processes are not infrequently applied in the case of default.

The small holder's difficulties.

205. The possibility of removing these difficulties has exercised many minds in the past, but so far they have proved insuperable. The consequence is a somewhat defeatist attitude towards the whole system. We are not prepared to acquiesce in this, since we are convinced that the small holder's economic position would be substantially improved if, when he is obliged to borrow to replace the sudden loss of a bullock, he could get a loan forthwith at a low rate of interest. In some parts of the Punjab cattle disease frequently plays havoc with the bullock-power required for cultivation—in a single village in Ferozepore cattle worth Rs. 4,500 recently died in one year[2]—and when this occurs it imposes the severest strain upon the small holder's resources and nearly always involves him in borrowing, often with dire results. Seed at harvest time is only less important, and it has been suggested to us by one who knows the village well that, if these two needs could be financed cheaply by the State without undue delay or harassment, the small holder could be left to fight his way in the world without further help.

The Committee's recommendation.

206. We had the advantage of discussing the whole question with a number of gazetted officers of the Co-operative Department all of whom are experts on the needs of the small holder. They were unanimous that some special arrangement should be made to provide him with good seed and efficient bullocks when he could not obtain them from his own resources. We therefore suggest, as a purely experimental measure, that a special officer of the rank of Naib-Tahsildar should be deputed in half a dozen *tahsils* to advance loans to small owners under the Agriculturists Loans Act on the following special conditions :—

(*a*) The loans should be confined to cattle, seed and fodder and should not be given for the payment of land revenue.

(*b*) They should be restricted to persons paying not more than Rs. 25 land revenue. In the canal colonies

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[1] *Report* pages 28, 29.

[2] *Punjab Village Surveys No. 9*, page xxxvi.

a somewhat higher maximum may be necessary, the object of the scheme being to help the ordinary one-plough cultivator.

(*c*) They should be advanced at approximately half the ordinary *taccavi* rates.

(*d*) They should be subject to a maximum which should be sufficient to allow the purchase of a pair of bullocks. For most districts Rs. 150 should suffice, but in some the amount might be less.

(*e*) Loans for a single bullock should be made repayable within three years, and for two bullocks within five years ; in both cases payment by instalment should be allowed.

(*f*) In cases of fraudulent application or misappropriation the loans should be recalled at once and penal interest should be charged at 6¼ per cent (one pie in a rupee).

(*g*) Loans for seed should generally be given in kind.

(*h*) As far as possible loans should be given on the spot by the Naib-Tahsildar himself. He should also be responsible for recovery, but for this purpose he should use the agency and staff ordinarily employed for the recovery of *taccavi*.

(*i*) Inspectors of the Co-operative Department could be usefully employed as Special Naib-Tahsildars as they are familiar with the difficulties and dangers of advances to cultivators. Others employed in this work should be given three months' training with the Co-operative Department to familiarize them with these difficulties. The difficulties are very considerable, and can only be avoided if all advances are closely controlled. Otherwise there is bound to be misapplication and the scheme will then do more harm than good.

(*j*) If the experiment succeeds, it should be extended to other *tahsils* and, perhaps, applied to tenants as well as to owners. For the present it should be confined to owners.

Its cost.

207. The cost of the scheme would be a suitable charge upon the small holders' development fund recommended in chapter 10.

We have dealt with the question of wells in the paragraphs that follow.

Protective leases for wells.

Complaints against *chahi* rates.

208. During the course of our enquiry we heard complaints in several districts against the imposition of higher land revenue rates on land irrigated by wells than on land wholly dependent on rain. It was urged that they were not justified, as wells are sunk by the cultivator with his own capital.

State loans and protective leases.

209. "The principle that the State in India has a right to share in the produce of the land (to quote the Government of India Resolution of 1902) carries with it the right to share in any increment of the produce or its value."[1] On the other hand the right of a landowner to be compensated for his capital outlay on works which increase the productivity of his land has long been recognized. As long ago as 1851 the Court of Directors considered the question and issued the following directions :—

> "Another question of importance is whether an agriculturist at the renewal of the settlement should be allowed the full benefits of his improvements, or whether the Government should be entitled to a share of the additional value, which his capital and industry aided by other circumstances have added to the land. We are of opinion that the only satisfactory principles on which all future renewals of settlements can be made will be that reference must be made to the value of land at the time, a liberal consideration being given for the improvements attributable only to the efforts of the tenant himself, and especially with regard to such as are of a comparatively recent date and with regard to which he has reaped the advantage only for a short period under the old settlement."

The Board of Administration in the Punjab had already taken steps to encourage the construction of wells, of which there were even then a large number, both by offering loans for the purpose at favourable rates and by granting what were called protective leases, the effect of which was to exempt the land irrigated from increased assessment for a certain period. This policy was embodied in the Land Improvements Loans Act, XIX of 1883, which provided that, when land was improved with the aid of a loan granted under the Act, the increase in value which followed should not be taken into account in any revision of assessment for a number of years. The number is never less than twenty and may not exceed forty, and it varies with (1) the amount spent, (2) current rates of interest, and (3) the average annual

[1] *Op. cit.*, page 26.

value of the improvement. In the case of old wells which are repaired, the minimum and maximum periods are ten and twenty years, respectively.

Period of protection.

210. In determining the exact period of a protective lease, the Settlement Officer aims at giving the owner of the well time to recover double his outlay before the rates are enhanced. For this purpose a maximum of forty years is sufficiently long, but considering the great importance of using every possible means to increase the productivity of the soil, and the very high rates of interest at which money is still borrowed for sinking wells,[1] we are of opinion that the minimum should be raised to thirty years. It would add a touch of liberality, and might too have a useful psychological effect, if the term fixed were so many years or the lifetime of the owner, whichever period were longer. If there were more than one owner, it should be the lifetime of the youngest.

An experiment.

211. We have alluded to the high rates of interest that have often to be paid for the sinking of wells. Under the Act of 1883 State loans can be had at four per cent, but for the reasons given in paragraph 206 less than ten per cent of the new wells are sunk with their help.[2] To remedy this, we understand that Government are considering a scheme for popularizing State loans amongst Crown tenants in a part of the Nili Bar Colony, where wells are badly needed to supplement the canal irrigation which is only available during the hot weather. The main features of the scheme are these :—

(*i*) Loans will be for an indefinite period and, subject to what follows, need never be repaid.

(*ii*) Not more than Rs. 800 or less than Rs. 400 will be advanced. A minimum is necessary to avoid petty advances.

(*iii*) No protective leases will be given, but a fixed well assessment will be imposed on every well, equivalent to three per cent of the sum advanced. This will provide for the interest on the loan and will be the sole charge on the well. It will be liable to revision at the next settlement, when the well will be treated on exactly the same lines as other wells which have no protective leases. If at any time the well becomes incapable of use, the charge will be discontinued.

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[1]The Chairman recently came across a number of cases where the rates were 18½ and 25 per cent.

[2]For the five years ending 1936-37 the percentage was less than nine : compare too, *Punjab Banking Enquiry Report*, page 44.

In brief, the scheme replaces the loan which has to be repaid and the protective lease by a loan which need not be repaid subject to an annual payment of three per cent on the loan. The return to Government will be the additional income it will derive from the extra cultivation of crown lands. There seems no reason why it should not be applied with necessary modifications elsewhere, and this will doubtless be considered if the experiment proves a success. If, as may well be the case, it cannot be popularized without some loss to Government, this might be borne by the Small Holders' Development Fund recommended in chapter 10. Great care will, however, have to be taken that the loans are not misapplied, as so often happens in the village, and that wells are not sunk where the water is too brackish for cultivation. Advances, too, should so far as possible, be on a contributory basis.

212. It only remains to add that in the five years ending 1936-37 nearly 16,000 new wells were sunk in the province.[1] At an average cost of Rs. 800 a well, this means an expenditure of 1¼ crores. This is no mean sum for a period of depression and certainly does not suggest that the complaint against the present system of assessment has much substance; nor was it anywhere pressed with any insistance. At the same time, as a further stimulus to a form of enterprise which, with a rapidly increasing population, is becoming of almost urgent importance, we recommend the immediate adoption of the two modifications indicated above.

Possibility of taxing the sale of agricultural produce.

213. Question No. 21 of our questionnaire[2] raises the question whether the small owner could be relieved of land revenue with the help of any indirect method of taxation on agricultural produce or income. We received no suggestions on this point, but, with the help of the Marketing Officer, Sardar Kartar Singh, we have examined the only measure that seemed possibly feasible, namely, a tax on the sale of agricultural produce. Theoretically such a tax should be imposed upon all produce sold throughout the province, but in actual practice it would be necessary to confine it to produce brought to recognized markets for sale or despatched by boat or rail.

Limitations of the tax.

214. The first objection to the scheme is that produce despatched by road to a destination outside the province would have to be ignored, as the difficulties of control and collection would be too formidable to be overcome. It is impossible to estimate even

Difficulty of road transport.

[1]The exact number is 15,781.
[2]Page 152.

approximately how much produce would escape in this way, but considering the extensive frontiers of the province and the mosaic of Indian State territory within its borders, it is bound to be considerable and is likely to increase with time. The effect would be to penalize Punjab markets to the advantage of neighbouring markets in States and other provinces. The objection, therefore, is a serious one.

Difficulty of extra-provincial produce.

215. A cognate objection is that a certain amount of the produce which is brought from other provinces or Indian States for sale in Punjab markets will be withheld to avoid the tax and will be sold elsewhere. This again will work to the prejudice of Punjab markets, and at least sixteen markets[1] of these, containing more than fifty ginning factories, are likely to be affected. The difficulty might conceivably be obviated by allowing foreign produce to be sold in Punjab markets tax-free on production of a certificate that it had been grown outside the Punjab. We cannot, however, recommend this as it would infallibly lead to abuse.

Produce taken from one market to another.

216. We consider, therefore, that if this tax were introduced, it would have to be confined to sales in recognized markets and to shipments by boat or rail. In recognized markets we include all towns with local bodies, since an appreciable amount of produce goes direct from villages to neighbouring towns which have no regular grain market. The best way of collecting the tax in this case would be to do it through the agency of the local body. But this, too, is likely to lead to abuse without very close control, which would be costly. Nor even with an entirely reliable staff would collection be free from difficulty. For example, we are informed that from three to five lakhs of maunds of produce enter the municipal limits of Lahore every year, and part of it comes from other markets where the tax would already have been paid. To avoid double taxation the importer would have to provide himself with a transit pass certifying that the tax on that particular consignment had already been paid. This again is likely to lead to abuse both in the issue of the pass and in the use that is made of it. Nor is it likely to commend itself to traders, who will certainly regard it as a vexatious interference with trade.

Despatches by boat and rail.

217. The same will apply to despatches by boat and rail, for here again taxed produce will have to be differentiated from non-taxed. In the case of despatches by rail, the close co-operation of the railway administration and its traffic department will have

[1]Rupar, Budhlada, Jakhal, Bhiwani, Bahadurgarh, Dabwali, Kaithal, Hodal, Ambala, Khanna, Pakpattan, Arifwala, Mailsi, Burewala, Lodhran and Vihari.

to be obtained, and even with this co-operation, when consignments are heavy, undesirable practices amongst underlings may result.

Shipments by boat are mainly down the Indus to Sukhur. In this case it would probably be necessary to confine the traffic in agricultural produce to licensed boatmen. The Marketing Officer thinks that it would also be necessary to make the shippers personally responsible for the levy and collection of the tax, and license them accordingly. This could perhaps be avoided by making the owners of the boats responsible ; but in that case the tax will be more an export tax than a tax on sales, and as such it will be open to serious question under the Government of India Act.

Validity of the tax.

218. It is a question indeed whether even as a tax on sales it will be valid under the Government of India Act. Under this Act, though a tax on sales may be imposed by a provincial Government, only the Central Government can impose an excise duty. We are not clear as to the precise line of division between the two, but we understand that the question whether the tax we are considering is in some of its aspects an excise is not free from doubt.

Necessity of legislation.

219. Even if this difficulty does not arise, legislation will be necessary to provide that those responsible for the levy and collection of the tax keep proper accounts of all sales and make them available for inspection. There will also have to be penalties for irregularity and fraud, and weights and measures will have to be controlled, for if there is to be a tax on sales, there must be a guarantee that the amount sold is correctly calculated. At present this guarantee is entirely lacking, and weights and measures are notoriously unreliable. In recognized markets the tax would presumably be levied by commission agents on all sales effected through them, and they would have to be licensed for the purpose.

Regulation of markets.

220. We understand from the Marketing Officer that a provincial Bill for the proper regulation of markets is under consideration and that it will provide, *inter alia*, for the maintenance of accounts of all arrivals in the market. It is not absolutely necessary that this Bill should be passed before the tax is introduced—a Bill of a more restricted character would suffice — but it would greatly facilitate its introduction if all markets were properly regulated first. It is proposed, for instance, to reduce or abolish certain doubtful market charges, and this would do something to reconcile those concerned to the tax. We are inclined, therefore, to think that introduction of the tax should

be deferred at least until all the more important markets have been brought under regulation, even though this will apparently take ten years or more from the passing of the Bill.

Yield of tax.

221. The Marketing Officer has kindly worked out a very rough estimate of what a tax at the following rates may be expected to yield in a normal year[1]:—

	Per maund. Rs. A. P.
On—	
(*a*) Cereals and other grains ..	0 1 0
(*b*) Sugar and gur ..	0 1 0
(*c*) Oil-seeds	0 1 6
(*d*) Unginned cotton	0 2 0

In the case of (*a*), (*b*) and (*c*) the amount comes to about 41 lakhs. For (*d*) a fairly accurate estimate is possible as the amount of cotton baled in the province is known. The Marketing Officer's estimate is 24 lakhs.

Reasons for not recommending it.

222. The amount is, therefore, not inconsiderable and, if the rates were doubled, would provide the means of reducing the land revenue by nearly a third. Its one clear advantage over land revenue is that its incidence would be heavier on the medium and large holder than upon the small. For example, an owner with a one-plough holding ordinarily consumes a much larger proportion of his produce domestically than an owner with a holding three or four times as large. If too, the proceeds of the tax were used to reduce land revenue in favour of the smaller owners, they would get a double benefit. Even a tax of 65 lakhs would probably make it possible to reduce the land revenue by a half in the case of those who paid Rs. 15 or less. Theoretically, therefore, the tax is attractive, but we do not recommend it in view of the difficulties stated above, and of the unforeseen difficulties which may be expected to arise. An appreciable amount of produce will escape taxation ; markets near Indian States and other provinces are bound to lose part of their custom ; traders in agricultural produce will probably be subjected to much petty vexation and extortion, and the whole system may very well lead to a widespread increase in fraud and corruption. The close co-operation of the North-Western Railway and the Delhi province will have to be secured ; and the cost of collection may easily amount to ten per cent of the proceeds, whereas there will be no corresponding reduction in expenditure in the land revenue budget.

[1]The estimate, which is for the province as a whole, is based on figures for 54 markets.

223. In short, we consider the introduction of the tax in the present condition of the province premature. With the regulation of markets, which we regard as a most desirable preliminary, circumstances may change considerably and we recommend that the position should be reviewed when this has been done. Meanwhile enquiry should be made to ascertain what would be the effect of the tax upon different types of holdings. One effect to be anticipated is that it will act as a check upon the development of commercial farming, and in favour of subsistence farming. This in our opinion is not necessarily a disadvantage.

Need for preliminary enquiry.

224. There is one form in which the tax would be free from most of the difficulties and objections mentioned above, namely, if it were confined to the sale of cotton. This would merely involve an extension of the system under which for some years a cess of two annas per bale of ginned cotton has been levied throughout the Punjab on behalf of the Punjab Central Cotton Committee. At the rate of two annas per maund of unginned cotton, this would bring in 24 lakhs, a sum sufficient to meet the cost of a substantial reduction in land revenue in the lowest grades, or to provide a fund for developing rural areas in the interest of the small holder, as recommended in chapter ten. Such a tax would, however, be felt as a burden throughout the canal colonies by both large and small owners, since nearly all the cotton grown there is sold ; and measured in terms of yield it would involve an extra charge of about a rupee an acre. This is not a charge that it would be prudent to impose upon cotton at its present low price. We do not, therefore, recommend it. If, however, cotton were to return to its pre-depression price, it would be worth considering.

Tax on sale of cotton.

PART IV—Review and Recommendations.

CHAPTER 12.

Recapitulation and Review.

Application of income-tax principles.

225. In our terms of reference we were commissioned to report on three subjects. Firstly, whether it was practicable to apply the principles of income-tax to the assessment of land revenue. Secondly, whether the land revenue system could be revised in any other way "so as to give relief to the small holder"; and, thirdly, what would be the cost of any scheme which we proposed. In chapter 5 we have shown that the application of income-tax principles involves either an impossible loss of revenue or an impossible number of assessees[1]. Theoretically, no doubt, we are not in a position to judge finally any fiscal question : that is a matter for the Resources and Retrenchment Committee. But in this case the loss of revenue will be so great—we estimate it at about 2½ crores—that we can hardly doubt the ultimate verdict. Moreover, even this loss postulates 180,000 assessees ; and it could only be substantially reduced if the number of assessees were increased to astronomical figures.

No popular demand for this.

226. We did not find anywhere in the province a general desire for the application of income-tax principles. On the contrary, nearly all the groups of landowners interviewed were opposed to it. Broadly, it may be said to commend itself to two classes only : to those who approach the question from a theoretical rather than from a practical standpoint, and to those who hope to benefit by exemption. If exemption were not a feature of the income-tax system, it may be doubted whether the application of the latter would have any adherents. We shall return to the subject of exemption presently.

Age and complexity of the land revenue system.

227. Finding ourselves unable to recommend the introduction of income-tax principles, we have anxiously considered how far the present system is susceptible of improvement. Like an aged and wide-spreading banyan tree, it has its origins in the remote past and is now so deeply rooted and grounded in village economy that it is not easy to suggest any major improvement which may not impair, or even imperil its stability. So great too is the diveristy of conditions in a province with a rural population of nearly 23 millions[2]

[1]Paragraph 62.

[2]In 1931 it was 20·34 millions : the whole population has increased by twelve per cent since.

scattered over 34,000 villages, cultivating every type of soil and employing means of irrigation as varied as canal, well and hill torrent, that it is difficult to formulate any measure of general benefit without allowing for much local adjustment. The difficulty is all the greater in that normally it takes at least thirty years to assess the whole province. The assessment of each district, too, has been strongly influenced by its past history and by the economic conditions prevailing when it was settled. In the circumstances uniformity is out of the question. Nor would it be possible to introduce it without re-assessing almost every district, which could not in any case, if only for want of staff, be done in less than fifteen years. Any important changes, therefore, can only be gradually introduced, and since the effects of change are only fully apparent with the lapse of time, great caution is needed. This is well expressed by the Government of India in their Resolution of 1902. The passage is worth quoting at length :—

> " Where habit and precedent count for more than wisdom, there has been need for caution in reform ; and logical completeness or simplicity could not be expected of a system born amid such surroundings applied to such manifold conditions and to so heterogeneous a population, and subject, in the various stages of its development, to considerations of practical expediency rather than of abstract symmetry or scientific perfection."

Definition of net assets.

228. The most important change urged upon us is that agricultural net assets, of which land revenue is a fixed proportion, should be re-defined in terms of the direct profits of cultivation instead of in terms of landlords' rentals. We have considered this at length in chapter 4 and have come to the conclusion that the present definition should stand. We base this conclusion on two considerations. Firstly, we feel a strong doubt whether the proposed change would in the long run be to the advantage of the owner-cultivator, whom it is sought to benefit. The statistical information available, which is analysed in Note A, is too meagre for a conclusive opinion ; but from our general enquiries and personal experience we are led to think that the present system is certainly to his advantage when prices are high, and probably also when they are neither high nor low. It is only clearly to his disadvantage after a sudden fall in prices, before the fall in costs has had time to overtake the fall in income. Secondly, the administrative difficulties are formidable. Elaborate and costly enquiries would be required to obtain the necessary data, and when obtained it is most doubtful whether they would provide as reliable a basis for assessment as the present method.

The sliding scale system (*a*) in the canal colonies.

229. The latest change to be made in our methods is the introduction of the sliding scale system in the two districts of Montgomery and Lyallpur. This has been done to meet the difficulties caused by the fall in prices, and it represents so important and novel a departure that we have devoted a whole chapter to it. It is too soon to pass final judgment upon it—that may not be possible for another ten or twenty years—but this much is clear, that the experiment has made a promising start and is popular with the many who have benefited by its remissions, which, owing to the low level of prices prevailing since its introduction, have been on a generous scale. It appears to be specially suited to tracts like the canal colonies, which have a large surplus produce for sale. Such areas are peculiarly susceptible to any sharp rise or fall in prices, benefiting considerably, it may even be enormously, by a rise, and suffering correspondingly by a fall.

(*b*) In other districts.

230. But in areas where holdings are very small and farming is consequently of the subsistence type, the gain or loss is much less marked; and if in addition harvests are insecure, variations may be more important in yield than in price. In such cases the system, which considers only the price factor, is less useful. If it could take both yield and price into account, the position would be different; but for the reasons given in paragraph 90 we regard this as impracticable. It is far from certain, therefore, whether the system will suit the whole province. Moreover, in its present form, it is open to the further objection that it involves taking a scale of commutation prices much above current prices to the confusion of the ordinary revenue payer, who is only satisfied that it is not grossly unjust when at length he sees it resulting in a handsome remission.

Recommendations.

231. We have sought to meet this difficulty by the modification of the system explained in paragraph 94. This may not suit all districts and we recommend that, whenever a district comes under settlement, it should be considered which form of the system is likely to suit it best. In paragraph 101 we have suggested a method by which remissions can to a large extent be based upon current prices instead of on the prices of the last two harvests, as is done at present. This should add considerably to the smooth working of the system. The system being still in an experimental stage, we recommend finally that it should be reviewed after ten years.

The term of settlement.

232. The only other important change which we recommend is that the term of settlement, which in 1928 was fixed at forty years, should be reduced to the old standard of twenty to thirty years according to circumstances. The objection to this is the popular belief, firstly, that settlements invariably involve an enhancement of revenue, and, secondly, that they cause much harassment and vexation to the people. The idea is certainly prevalent that a settlement necessarily means enhancement. This no doubt is because for many years, owing to the steady rise in prices, settlements inevitably resulted in enhancement. It is also believed by some that Government hesitates to undertake a re-settlement if it is not assured of an increase in revenue. We are emphatically of opinion that every district ought to be re-settled at due date wholly irrespective of whether this will result in a gain or loss of revenue. If this principle were firmly established and invariably applied, we believe that the opposition to a shorter period of settlement would lose much of its force. As to the harassment of the people, the spread of education and political consciousness should go far to reduce this. On the other hand, the advantages of shorter periods of settlement are great. We need not recapitulate them as they are given in detail in paragraphs 196, 198 and 200. One of them is of special importance to the small owner, namely, that the accuracy of the record of rights is more likely to be fully maintained. Our evidence on the subject suggests that there has been some lowering of the old high standard. We draw the special attention of Government to this, for any further deterioration is bound to result in an increase of litigation and crime, from which the small owner will be the first to suffer.

Principles kept in view.

233. Some minor recommendations are made in chapter 6, but need not be repeated here. In all our recommendations, whether major or minor, we have kept certain basic principles firmly in view. "Simplicity" says a French writer, "is the final condition of art in finance as in everything else."[1] In dealing with a population which is almost entirely illiterate, simplicity is a cardinal virtue.

The *patwari*.

234. Our second principle is that no more power should be put into the hands of the *patwari*. "*Niche patwar upar Kartar*"[2] is a familiar proverb, and wherever we went, we were cautioned against

[1] "La simplicité est le dernier terme de l'art, en finances comme pour le reste", quoted by Sir Edward Maclagan, see Note C. page 173.

[2] The *patwari* below, the Creator above; i.e., there is nothing of moment in between.

giving him more power. One *zaildar*[1] went so far as to say that people were " more afraid of a visit from the *patwari* than from an officer ". It is significant that, though the legitimate income of the patwari does not usually exceed Rs. 35 a month, the Co-operative Department have found it necessary to pay him, when employed on consolidating holdings, Rs. 71 a month.[2] Consolidation is certainly carried on under more difficult conditions than the work of the ordinary *patwari* and requires the best men available, but even so the difference in pay is significant.

The owner-cultivator.

235. The third principle which we have borne in mind is intelligibility; that is to say, that no change should be made which cannot be readily understood by the ordinary revenue payer. The principle of caution we have already mentioned. Finally we have concentrated our attention less upon the small owner, who may be only a rent receiver, than upon the owner-cultivator, whose chief, if not sole, occupation is the cultivation of the soil.

The tenant.

236. The second of our terms of reference speaks of " relief to the small holder ". This would include tenants as well as owners, since anyone who cultivates land is a holder of some kind; but whether this was intended or not is not clear.

Theoretically, there is no connexion between land revenue and the tenant, since it is a charge upon the owner. In actual fact, however, there is a very close connexion for two reasons. The first is that throughout the canal colonies a tenant generally pays half the land revenue as part of his rent. The second is that innumerable small owners, in order to support themselves and their families, are obliged to take additional land on rent. In some districts they are more tenants than owners, taking more land on rent than what they own. Assessment, too, is based upon rents, and if landlords were to reduce their rents their assessment would sooner or later be reduced correspondingly. Rents, therefore, cannot be ignored in any consideration of the economics of land revenue. If they were substantially reduced, the owner-cultivator would benefit doubly, both as tenant and as owner: as tenant, directly; and as owner, indirectly through the effect that it would have upon his assessment. Accordingly, we found it impossible in our enquiries to ignore the position of the small owner *qua* tenant and the position of tenants generally, particularly in

[1]The headman of a group of villages.

[2]This includes a fixed travelling allowance of Rs. 20.

considering the definition of net assets. We reached, however, no sure conclusion beyond realizing that any attempt to control rents would bristle with difficulties.

Rent.

237. Opinions differed widely as to whether rents were too high or not. Sufficient material is not at present available for determining the point; nor are people agreed as to what constitutes a fair rent. There was some measure of agreement that rents in parts of the Nili Bar Colony were too high, but we understand that Government has recently introduced there an element of control. With the increase of population, tenants are not likely to find it easier to secure reasonable terms. Whenever therefore, in any area under settlement, the supply of tenants is manifestly greater than the demand and rents have risen in consequence, great caution should be shown in assessing the owner-cultivator. It is a strong argument in favour of the special measure of relief recommended for the small owner-cultivator in paragraph 129, that it would provide a useful safeguard in a case of this kind.

General considerations in regard to relief.

238. This brings us to our measures of relief. In considering these we have been handicapped by our ignorance of what the budget position is likely to be after the report of the Resources and Retrenchment Committee. We have, therefore, restricted ourselves to such schemes as prudence and commonsense would suggest as feasible. The considerations which we have had in mind in this connexion are the following.

Firstly, there is a deep and widespread feeling amongst the agricultural classes that they are more heavily taxed, in proportion both to their ability to pay and to the benefits they receive, than the non-agricultural classes. We have not submitted this view to statistical examination since it lay outside the scope of our enquiry. But we are concerned to point out the strong feeling that exists on the subject, and our conviction is that, if it could be removed, it would go a long way to reconciling the land owning classes to the payment of land revenue on the present basis. As it is, it gives an opportunity to the political propagandist to stir up agitation against its payment and it kindles a strong feeling of injustice, which is an unhealthy element in the body politic.

Secondly, in considering the budget requirements for the province, the activities of the beneficent departments should not be curtailed. We find instructed opinion unanimous on this

point, though some of ou witnesses thought that these activities might be carried on with equal efficiency at a lower cost. Others—and these were not the least experienced—were in favour of some extension of their activities.

Thirdly, when non-agricultural sources of revenue have been tapped to the utmost, the sum required to balance the budget must at present be met from land revenue and the water rate. We have considered the possibility of replacing land revenue in part by a tax on sales, but, though this may be feasible in time, it is premature at present, if only because the markets of the province are still unregulated. With their proper regulation, which we understand is contemplated, the position may change.

The water rate.

239. We have referred to the water rate. It was frequently mentioned by witnesses, and it is clear that in the mind of the ordinary revenue-payer it is barely distinguishable from land revenue. This is a psychological point that cannot be ignored. Its economic importance is that in many areas it more than doubles the amount of cash which has to be found twice a year when Government dues have to be paid. All cash payments involve a certain difficulty in a society which is still largely based upon payments in kind, and the difficulty, in spite of a generous reduction by Government, has greatly aggravated the depression in the canal colonies. We have only one recommendation to make in this connexion and we make it because of the connexion with land revenue just emphasized. Some villages are so badly circumstanced, that volume for volume they cannot obtain the same weight and value of produce with the water they receive as other villages: yet they may have to pay exactly the same charge for it. The point came up in connexion with the recent settlement of Lyallpur. The Settlement Officer has proposed that in such villages, which are comparatively limited in number, the scale of charges should be reduced. This seems to us a sound principle and we endorse it, the more so as it is usually the smaller owners who find themselves in the worst villages. We understand that the proposal is receiving the careful consideration of Government.

Lightness of the land revenue before the fall in prices.

240. The great merit of land revenue from a fiscal point of view is that it brings in a large sum—forty per cent of the total budget—in the shape, for the most part, of countless small sums, the payment of which, until the fall in prices at least, presented no serious difficulty to 99 per cent of the revenue-payers. Seventy per cent of the 34 lakhs of landowners pay less

than ten rupees, and fifty per cent less than five rupees, the average in their case being only Re. 1-13-0. Narrow as the ordinary cultivator's resources are, few will seriously contend that this charge can, even now, materially affect his annual budget. Before the fall in prices it was hardly felt at all when harvests were good, and when they were bad it was freely suspended and if necessary remitted. After the war agriculture prospered so well that the province was able to import an average of four to five crores worth of bullion[1] a year, and the strong probability is that the high tariffs imposed at the same time upon textiles and steel pressed more severely upon the cultivator than land revenue.

Effect of the fall in prices.

241. With the fall in prices the whole position changed. Many were forced to borrow to pay their land revenue, and in canal-irrigated tracts cash had to be found for the water rate. Gold ornaments were freely sold. The standard of living, which has risen rapidly since the war, was ruthlessly cut down, and three important adjustments had to be made: between landlord and tenant, debtor and creditor, and landowner and Government. Owing to the *batai* system, which is explained in paragraph 73, the first adjustment presented little difficulty. The second is still incomplete, and our committee is the last of the many measures taken in pursuance of the third. The most important of these measures has been the remission of 191 lakhs of land revenue and a reduction of nearly ten per cent in the water rate amounting to about 36 lakhs a year. The sliding scale system has also been introduced into three of our most important colonies, with financial results which are strikingly illustrated in paragraph 88. The distribution of good seed and the consolidation of holdings were also taken up with renewed energy, and the enormous sums in cash received every year from the Army have been of powertul assistance in many districts. The net result is that the Punjab has probably suffered less from the crisis than most other parts of India, and it has certainly fared no worse than many countries in eastern Europe.[2]

Proposal for temporary relief.

242. Nevertheless, when all these mitigating factors have been discounted, it has to be admitted that the economic position of the revenue-payer is very different from what it was ten years ago. We may give one illustration of this. Until 1930 the land revenue throughout the province was paid on a scale of prices everywhere well above the commutation prices on which the

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[1] *Wisdom and Waste in the Punjab*, page 328.

[2] Compare Tiltman's *Peasant Europe*, 1934.

assessment was based. This has to some extent been off-set by the reduction, in 1928, of the net assets ratio to a quarter; but so far this has been applied in only nine out of the 29 districts. We have thought it advisable, therefore, to recommend a temporary remission on account of the fall in prices, since the depression still continues and shows little sign of lifting. The total amount of relief that we have in view is a sum of about two crores to be spread over five years. In order that it may benefit as many owners as possible who cultivate or farm their own land, we have recommended that it should not be given to those who give their land out on rent. Further to reduce the cost, we have advised the levy of a temporary surcharge on all who pay more than Rs. 250 in land revenue. It should then be possible to include all who pay up to Rs. 25 within the scope of the relief. If the surcharge is not imposed, we recommend restriction of the relief to those who pay twenty rupees or less.

Surcharge on the larger owners.

243. The surcharge involves the partial introduction of the income-tax principle of progression. The Indian Taxation Enquiry Committee noted in their report that they wished "to emphasize the statement of Dr. Gregory that the land revenue is essentially a tax on things and not on persons, and as such it is not a tax to which the doctrine of progression can be applied."[1] We have given the most anxious consideration to this question. In the Punjab ownership is so widely diffused that the number of large owners who might fairly be called upon to contribute a larger share of their agricultural income, is very small and if the land revenue limit were to be put at Rs. 1,000 it would hardly exceed 800. Apart, therefore, from the many other difficulties involved, the return from such a tax cannot be very significant. Even if a surcharge is imposed on all who pay over Rs. 250, which is what we propose, it will produce only 6½ lakhs at the suggested rates, which are as high as we think it prudent to go. As a permanent measure, therefore, we are not in favour of it, and we only recommend it as a temporary measure because—

(1) it will make it possible to widen the scope of the relief just mentioned; and

(2) the administrative difficulties should be manageable over a period of five years.

It was not perhaps to be expected that we should find any enthusiasm for a surcharge amongst the larger owners, but it was disappointing that, with very few exceptions, all expressed themselves strongly opposed to it. That our proposals are modest will perhaps be clear from the fact that a Bill has recently

[1] *Report* i. 76.

been introduced into the Legislative Assembly of the United Provinces, the effect of which, if passed, will be to impose roughly a 66 per cent enhancement on all who pay over Rs. 1,500 in land revenue. Our maximum is 25 per cent to be paid only by those who pay more than Rs. 5,000 in land revenue.

Exemption.

244. At the other end of the scale is the host of small owners mentioned in paragraph 154. We have considered whether they should be altogether exempted from the payment of land revenue. We are emphatically against this for the reasons given in chapter 8. These are, briefly, that it would be very costly on any but the narrowest scale—up to five rupees it would cost 32 lakhs—and if kept within manageable fiscal limits it would do no real economic good. Its only merit would be its psychological effect, and this would soon pass. We believe it right, moreover, that every owner of land should pay something for sharing in its monoply value, and still more for occupying the privileged position described in paragraph 152 which is, we believe, without parallel in any other major province in India. Further, as the Indian Taxation Enquiry Committee pointed out,[1] it would put a premium on uneconomic holdings. These are the agricultural curse of the province, not only on account of their number but also because of their general fragmentation. They are, moreover, steadily increasing and must increase even more rapidly in the next twenty or thirty years as the result of the phenomenal growth of population which has taken place since 1921 and which continues with increasing force.

The increase in population and uneconomic holdings.

245. This is the second great economic change that has taken place in the last ten years. In March, 1921, the population of the province was 20.68[2] millions. Last December, it was 26·42. Thus, in less than seventeen years, the population of the province has increased by nearly six millions, or 22 per cent. For the twenty years before this (1901—21) the increase was only 3·72 per cent. The effect of the present increase is only now beginning to be felt, and its full effect will not be felt until most of the children born in the last seventeen years are grown up. Unless the province is unhappy enough to be visited by another scourge like the influenza epidemic of 1918, it seems inevitable that the pressure upon the soil must greatly increase and uneconomic holdings multiply. In Dera

[1] *Report* i·83.

[2] In 1931 it was 23·58.

Ghazi Khan, already 83 per cent of the owners pay less than five rupees land revenue, and in Kangra the percentage is nearly eighty. The position recalls what Arthur Young found in France 150 years ago :—

> " Couples marry and procreate on the idea, not the reality, of a maintenance ; they increase beyond the demand of towns and manufactures, and the consequence is distress, and numbers dying of diseases, arising from insufficient nourishment. Hence, therefore, small properties, much divided, prove the greatest source of misery that can be conceived ; and this has operated to such an extent and degree in France that a law ought undoubtedly to be passed to render all division, below a certain number of acres, illegal."[1]

Remedies for the sub-division of holdings.

246. France has solved the problem largely by birth control, and it is a question whether ultimately the Punjab can solve it in any other way. Other countries, for example, Germany and Denmark, forbid or penalize the sub-division of holdings beyond a certain point, and in the 17th century Japan did the same.[2] Our enquiries show unmistakably that public opinion in the Punjab is nowhere ready for a measure of this kind, even where the evils of sub-division are greatly aggravated by fragmentation. The time may come, however, when grim necessity may compel a change of opinion.

The consolidation of holdings.

247. Meanwhile, if our whole land revenue system is not to be imperilled, it is of urgent importance to do everything possible to mitigate the evil. Much the best way of doing this is to consolidate holdings wherever they are badly fragmented. About 900,000 acres have already been consolidated by the Co-operative Department with the unanimous consent of all concerned, and the Revenue Department is now working in the same field backed by a law which allows, in certain circumstances, the application of compulsion. The importance of this work has been emphasized in paragraph 181, and all that we need add is that in our judgment it is far the most important measure of rural reconstruction. It is, in fact, the only means known to us by which a sensible addition can be made to the small owner's net income in a comparatively short space of time.

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[1]Arthur Young, Travels in France, 1787—89, Cambridge University Press edition 1929, pages 299-300. Compare also the following from Professors Bowley and Robertson's *A Scheme for an Economic Census of India*, 1934, page 61. " There are good reasons for regarding the problem of population as the gravest of India's problems ".

[2]Takizawa, *The Penetration of Money Economy in Japan*, 1927, page 116.

A minimum charge per holding.

248. It will take the best part of a generation to consolidate all the holdings of the province which are fragmented. Meanwhile no change should be made in our land revenue policy which may encourage partition or set a premium on the uneconomic holding. Rather should our policy be to set a premium on the joint holding. With this object we recommend that every holding (not every land revenue payer) should be subject to a minimum charge of one rupee a harvest or two rupees a year, the charge to be gradually introduced as each district is resettled. It is a small price for the landowner to pay for his privileged position and for the record that is maintained of his rights. But if experience shows that it involves hardship, it should be reduced to a rupee.

Colonists and their home farms.

249. One more change we advocate in this connexion; namely, that whenever a small owner is given land in a colony on peasant grantee terms, he should be required to surrender his entire interest in his home land to his next of kin, provided he has a male relative descended from his grandfather.

The dilemma involved in relief.

250. No one who has any close acquaintance with the Punjab peasant could doubt that he has a hard struggle to keep afloat, a struggle all the greater for the fall in prices. The reasons for this are familiar to all who have read the various books on the subject and need not be repeated. What our Committee is concerned with is the vital question whether this struggle can be appreciably and permanently lightened by any modification of the land revenue system. In considering this we are on the horns of a dilemma. All good judges agree that no relief short of 25 to thirty rupees a year could have any material effect upon the peasant proprietor's standard of living. Yet, if this sum were to be surrendered, it would not only totally dislocate the provincial budget, but it would also make it impossible for Government to continue the activities of the beneficent departments, which, in the opinion of all good judges, are essential for the gradual reconditioning of the village.

Concession to the owner-cultivator.

251. We have done our best to resolve this dilemma by recommending that in future settlements the owner-cultivator who pays no more than Rs. 25 land revenue should be given a remission of 25 per cent on his assessment. Incidentally this should act as an incentive to owners to cultivate their land themselves instead of giving it out on lease. At present about thirty per cent of our small owners do the latter.

It is impossible to estimate the cost of this proposal as it will take a generation to introduce it throughout the province. Meanwhile the small owner-cultivator will have no cause for complaint, for he will not only get special relief for five years (if our proposal is accepted) but he will be liable to assessment at only a quarter of his net assets, a lower proportion than any other major province has fixed and one regarded as generally suitable by the Indian Taxation Enquiry Committee.[1]. The effect of our proposal will be to reduce the proportion from 25 to 18¾ per cent. Ultimately if the taxable resources of the province develop at all freely, it should be possible to reduce the ratio for the small holder to 12½ per cent, a proportion not much higher than that in force in such countries as Italy, Hungary and France.[2] This, however, is to look very far ahead and should not be considered until the essential needs of the village have been much more fully satisfied than they are at present.

A small holders' development fund.

252. These needs are manifold and require even more urgent attention than they are receiving. If, indeed, we look beyond the demands of the moment and take a long view of what is in the best and lasting interest of the peasant, we must consider it as far more important than any direct relief which is practicable that the State should employ all the resources at its command to increase the peasant's net income and give him the amenities now considered essential to civilized life. In chapter 10 we have endeavoured to show that, though most cultivators could increase their income by harder and more intelligent work on the one side and by greater prudence and thrift on the other, it is altogether beyond their capacity to raise their standard of living to a higher plane and to secure the amenities of civilization without the full-powered assistance of Government. We have recommended therefore—and it is our most important recommendation—that a substantial sum should be set aside every year by Government out of its receipts from small owners to be spent upon their needs. We propose that this fund should be administered by a small holders' development board with a committee in every district, on which the small holder should be strongly represented. We contemplate a total grant of five crores spread over 25 years, with an initial annual grant of ten lakhs, to be gradually increased to 25 lakhs a year as the scheme develops.

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[1] *Report* i. 93, p. 233.

[2] See Note G, p. 233. Compare too the Indian Taxation Enquiry Committee's *Report* i. 39.

253. The re-conditioning of the village and the strengthening of its resources cannot, however, be entirely left to Government. The full co-operation of the people is required for the success of the scheme, and experience shows that there should be no insuperable difficulty in obtaining this if the fund is spent on schemes which commend themselves to the people. To ensure this and to secure their co-operation, we propose that at least two-thirds of the fund should be spent on a contributory basis. And to provide an additional stimulus in this direction, we propose further that all villages with small owners should have a definite claim upon the fund for suitable schemes up to a certain proportion of their land revenue.

The co-operation of the people.

254. The cost of our two principal measures of relief is formidable—in the first case, two crores to be spread over five years, and in the second, five crores to be spread over 25 years. It is not for us to say whether these sums can be found, but we would point to one source which might prove of material assistance in this connexion. When canal irrigation is brought to proprietary land, it has been the practice in the past for Government to take in return only a fixed charge for its water and some increase in its land revenue. These charges, though by no means negligible, have not prevented canal-irrigated land from soaring in value. It seems to us totally opposed to modern conceptions of social justice that a large number of landowners should, through the sole action of the State, be given a boon which may even in individual cases amount to thousands of rupees and in the aggregate to crores. If, in future irrigation projects, Government took only a quarter of this unearned increment, it might go far to finance our proposed fund. An extension of canal irrigation will then be twice blessed, blessing not only the landowner of the tract, but the small owner throughout the province.

The cost of the proposals and the taxing of unearned increment.

255. The Indian Taxation Committee, after considering the land revenue question throughout India, came to the conclusion that " the difficulties of the poorest cultivator arise, not out of the land revenue itself, but out of a combination of circumstances, of which the chief factor is a large extension of uneconomic holdings ". This is profoundly true of the Punjab, as, too, is their further view that " the real relief of the poorest cultivator in these circumstances is to be found in a better system of rural economy generally rather than in a change of the land revenue system ".[1] It is for this reason that we regard the small holders' development fund as our most important recommendation. In

The need for a better system of rural economy.

[1] *Report*, i, 93.

paragraph 185 we have enumerated some of the needs that such a fund could finance : village schools, hospitals, and roads, co-operative societies, the consolidation of holdings, and women's urgent need for teachers, doctors, and trained midwives. The two great menaces of waterlogging and erosion could also be more effectively fought. But chief of all is the need for education, for a system adapted to the simple but inescapable necessities of village life. For want of this, in the days of prosperity which followed the war, crores of rupees slipped through the fingers of the peasant into the pockets of others. For want of it, the peasant is everywhere in debt and sooner or later converts every material blessing into a larger family. For want of it, no reform, however beneficent, can help him if it involves the reading of a book or the keeping of an account. For want of it, any leniency in assessment would merely add to the large sum still spent upon litigation and the ways of improvidence. Education, therefore, is as essential to his general progress as consolidation is to his economic development. A recent writer says that this is " the key to the future prosperity of the agrarian nations ".[1] He mentions Bulgaria, another country of peasant proprietors, as having discovered this ' vital truth '. The prosperity of Denmark is based upon it, and the Punjab cannot hope for prosperity without it.

[1]Tiltman, *Op. cit.*, page 72.

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CHAPTER 13.

Summary of Recommendations.

Recommendations.

256. (1) *Income-tax principles and the land revenue system.*—The present system of land revenue should continue with the modifications explained in the recommendations that follow (paragraph 67).

(2) *Net assets.*—The present system should be maintained (paragraph 86).

(3) *The Sliding Scale system.*—(*a*) This should be modified as follows. There should be two sets of commutation prices, one calculated as at present, and the other on the basis of the prices prevailing during three to five years before settlement, abnormal years being excluded. The initial settlement demand should be based upon the second set of prices and remain fixed until prices either rose or fell by at least 25 or 12½ per cent, respectively. Thereafter, remission should be calculated to the nearest half-anna, and enhancement to the nearest anna in the rupee. Further, when remission is due, it should be given in full proportion to the fall in prices, but when enhancement is due an abatement of fifty per cent should be given. Remissions should be without limit, but the demand as enhanced should not exceed the demand due under the higher level of commutation prices. The latter should be fixed in accordance with existing practice (paragraphs 94—96).

(*b*) Whenever a district is to be settled it should be considered whether the modified system or the present system is likely to suit it best (paragraph 99).

(*c*) After ten years the whole position should be reviewed in the light of the experience gained (paragraph 99).

(*d*) To determine whether there should be any remission or enhancement, the average daily price of the following periods should be taken in the case of wheat, gram, and cotton :—

wheat and gram	..	the first half of April
cotton	..	the first half of November ;

in each case the average price should be increased or reduced by the average difference (calculated on a twenty years' basis and to the nearest half anna in the rupee) between the two periods and the appropriate marketing season of the crop concerned (paragraph 101).

(*e*) If the present system is maintained, in calculating remissions prices should be weighted according to the amount of produce sold each day during the marketing season (paragraph 103).

(4) *The fixed and fluctuating systems of land revenue.*—The *status quo* should be maintained (paragraph 108).

(5) Land revenue should not vary with particular crops (paragraph 111).

(6) *The distribution of land revenue.*—The pointed attention of all Settlement Officers should be drawn to the existing rules on the subject, and they should be instructed to use the discretion given them for the benefit of villages consisting mainly of small owners, especially in congested areas (paragraph 113).

(7) *Suspensions and remissions.*—(*a*) For cases of ordinary calamity no change in the rules is recommended (paragraph 116).

(*b*) As regards cases of extraordinary calamity, in the last line of paragraph 565 of the Land Administration Manual "field" should be substituted for "holding" (paragraph 117).

(8) *Payment in kind.*—Payment in kind is not recommended, but if the Co-operative Department scheme of payment of dues through approved commission agents establishes itself, it should be extended experimentally, on an optional basis, in selected areas to the payment of land revenue (paragraph 121).

(9) *Reduction of land revenue to 25 per cent. of net assets.*—A general and immediate reduction of land revenue to 25 per cent of net assets is not recommended. (paragraph 127). But it should be considered whether the resettlement of the Kangra district, which is not due until 1947, should not be started well before then, as over 40 per cent of net assets were taken there at the last settlement (paragraph 128).

(10) *Permanent relief to owner-cultivator.*—At future settlements the assessment of an owner paying not more than Rs. 25 should be reduced by a quarter in respect of all land cultivated or farmed by himself or his family for at least four years before settlement (paragraph 129). This should be introduced experimentally in one or two districts of small holders before being made an integral part of the land revenue system (paragraph 131).

(11) (*a*) *Temporary relief.*—A reduction in land revenue should be made for five years in favour of small owners, in respect of *khudkasht* land, only, as follows :—

For those paying—

	Reduction.
(*i*) up to Rs. 10 ..	8 annas in the rupee.
(*ii*) over Rs. 10 and not more than Rs. 25.	Rs. 5 irrespective of the amount of land revenue paid.

(*b*) If the proposal of a temporary surcharge on larger owners (paragraph 173) is not accepted, the relief recommended should be limited to owners who pay up to twenty rupees (paragraphs 134—1[illegible], 145).

(*c*) If in any district the proposal for permanent relief to owner-cultivators made in paragraph 129 comes into operation during this period of five years, it should replace the temporary relief recommended (paragraph 148).

(*d*) No exemptions of any kind should be allowed (paragraph 137).

(*e*) No relief should be given in respect of any land taken on mortgage ; but such land should be taken into consideration for calculating whether relief is due on other land owned by the mortgagee (paragraph 139).

(*f*) All land owned by the person concerned wherever, situated, should be taken into account (paragraph 141).

(*g*) Occupancy tenants who pay the equivalent of land revenue as rent should not get relief (paragraph 142).

(*h*) The lists of those entitled to relief should be based on the latest attested quadrennial *jamabandi* (paragraph 143).

(*j*) These lists should be prepared under the direct control of a responsible Revenue Officer (paragraph 144).

(12) *Jagirdars.*—They should share with Government the cost of the temporary relief recommended in favour of the owner cultivator. In cases affected by the permanent relief recommended in paragraph 129 the Settlement Officer should be at liberty to consider each case on its merits and to submit proposals to Government if he thinks fit (paragraph 147).

(13) *The local rate.*—The existing rules should continue to govern the subject. If permanent relief is granted as recommended, the local rates will depend on the amount finally assessed (paragraph 148).

(14) *Exemption.*—No exemptions from the payment of land revenue are recommended (chapter 8).

(15) *A Surcharge on the larger owners.*—A temporary surcharge for five years should be imposed as follows :—

Those paying over—

	Anna in the rupee.	*Percentage increase.*
(*a*) Rupees 250, but not more than Rs. 500.	1	6¼

	Annas in the rupee.	*Percentage increase.*
(*b*) Rupees 500, but not more than Rs. 1,000	2	12½
(*c*) Rupees 1,000, but not more than Rs. 5,000.	3	18¾
(*d*) Rs. 5,000 ..	4	25

During the period of five years only changes due to succession should be taken into account in assessing the surcharge (paragraphs 166, 173 and 174).

(16) *A small holders' development fund.*—A substantial sum starting at ten lakhs a year and rising to 25 lakhs a year should be set aside to be spent on schemes calculated to increase the small holder's net income and to provide him with the amenities appropriate to village life under modern conditions.

The fund should be controlled by district committees consisting of small holders' representatives from each tahsil with the Deputy Commissioner as Chairman. There should be a Central Board at Lahore presided over by the Minister for Development to allocate funds and to control expenditure. When necessary the Board should arrange for the execution of schemes through or with the help of the department concerned. The general aim should be a five crore development grant to be spent over a period of 25 years (paragraphs 186—188).

Two-thirds of the fund should be spent upon schemes to which the people themselves contribute not less than a third of the cost in labour, produce or cash (paragraph 189).

Funds should be allocated to each tahsil in proportion to the land revenue paid by small owners in the tahsil, a small owner being one who paid not more than Rs. 25. Further a village or group of villages putting forward a suitable scheme should be guaranteed a grant equal to their contribution up to a fixed proportion of the land revenue paid by their small owners (paragraph 190).

(17) *The term of Settlement.*—(*a*) The attention of Collectors should be drawn to section 59 (1) (*d*) of the Land Revenue Act, and they should be instructed to submit proposals for its application as soon as circumstances in any part of their districts justify this course.

Every Settlement Officer should be required to state whether he considers that his assessment should be reviewed in any area after a fixed period of years owing to the security of he area being threatened in any way (paragraph 198).

(*b*) The period of settlement should be reduced from forty to thirty years in *killabandi* areas and to from twenty to 25 years in other areas (paragraphs 200-201).

If the forty year period continues, the revenue records should be revised every twenty years (paragraph 201).

(18) *State loans to Agriculturists.*—As an experimental measure a special officer of the rank of Naib-Tahsildar should be deputed to advance loans in half a dozen tahsils to small owners under the Agriculturists' Loans Act for cattle, seed and fodder at half the ordinary *taccavi* rates, and on the special conditions detailed in paragraph 206. The cost of the scheme should be charged to the small holders' development fund recommended in chapter 10 (paragraph 207).

(19) *Protective leases for wells.*—(*a*) The minimum period of a protective lease should be raised to thirty years or the lifetime of the owner (the youngest owner if there are more than one), whichever period is longer (paragraph 210).

(*b*) The scheme which Government is considering for popularising state loans amongst Crown tenants in the Nili Bar Colony might be extended with necessary modifications elsewhere if the experiment in the Nili Bar proves a success. Any loss to Government on this account might be borne by the small holders' development fund, and advances should, as far as possible, be on a contributory basis (paragraphs 211-212).

(20) *Possibility of taxing the sale of agricultural produce.*—The introduction of such a tax is considered premature in the present condition of the Province, but the position should be reviewed when the regulation of markets, a most desirable preliminary, is carried into effect. Meanwhile enquiry should be made into the possible effects of such a tax on various types of holdings (paragraph 223).

A special tax on the sale of cotton is not recommended at present, but it would be worth considering if cotton were to return to pre-depression prices (paragraph 224).

(21) *Settlements.*—When, in any area under settlement, the supply of tenants is manifestly greater than the demand and rents have risen in consequence, great caution should be shown in assessing the owner-cultivator (paragraph 237).

(22) *The Water rate.*—The proposal of the Settlement Officer, Lyallpur, that the scale of water rates should be reduced in villages which are unfavourably situated for the use of canal water is endorsed (paragraph 239).

(23) *Discouragement of uneconomic holdings.*—(*a*) Every holding should be subject to a minimum charge of a rupee a harvest or two rupees a year. If experience shows that this charge involves hardship, it should be reduced to one rupee a year (paragraph 248).

(*b*) Whenever a small owner is given colony land on peasant grantee terms, he should surrender his entire interest in his home land to his next of kin, provided he has a male relative descended from his grandfather (paragraph 249).

(24) *Taxation of unearned increment.*—This should be considered in future irrigation projects (paragraph 254).

Acknowledgments.

257. We have already placed on record our appreciation of the assistance rendered us by various revenue experts. We would include amongst them Mr. C. H. Cooke, I.C.S., Settlement Officer, Meerut, who has kindly given us the interesting note[1] printed below. For the statistical information contained in Appendices I and II, which has formed the very foundation of our report, we are indebted to innumerable revenue officials throughout the province, amongst whom we would mention Khan Sahib Mirza Ihsan Ullah, Director of Land Records, through whom all the information has been submitted. Of special assistance, too, has been the expert guidance which we have received in connexion with farm accounts and prices from Professor Labh Singh, Professor of Agriculture, Lyallpur, and his Assistant S. Ajaib Singh, S. Kartar Singh, Marketing Officer to the Punjab Government, and Mr. C. Fazal, Assistant Secretary to Board of Economic Enquiry. Nor must we forget the continual help which has been freely given us throughout our enquiry by Mr. Akhtar Hussain, I.C.S., Revenue Secretary to the Financial Commissioners, and the Financial Commissioner's office. Finally, we cordially acknowledge the ready and efficient way in which our Secretary Mr. A. S. Lall, I.C.S., has run our office and conducted all our touring arrangements. The whole office has responded to his guidance and control and has worked uncomplainingly, often at nigh pressure.

(Sd.) MALCOLM DARLING,
Chairman.

(Sd.) KHURSHAID MOHD.,
Member.

(Sd.) ASA NAND,
Member.

LAHORE :
May 16th, 1938.

[1]Note D.

NOTE A.

Farm Account Enquiries in the Punjab.

Introductory.

In this note we propose to examine in more detail than would be convenient in the body of our report such statistical information as is available on the economics of farming in the Punjab in relation to land revenue, with special reference to the evidence produced before us by Professor Brij Narain, Professor of Economics, Sanatan Dharm College, Lahore. Most of the statistical information available is contained in the series of annual publications entitled " Farm Accounts in the Punjab ", published by the Punjab Board of Economic Enquiry. The series is important as it is the first systematic attempt that has been made to study, over a number of years, the economics of farming in the Punjab on a statistical basis. The accounts relate to 23 holdings scattered over ten districts, but the total area is less than 1,200 acres, and this includes the Government farm of Risalewala in the Lyallpur district, which alone measures about 750 acres. As the circumstances of this farm are special, being not only very large but also under the management and control of the Agricultural Department, figures for it will be given separately.

The latest publication is for 1934-35, but figures will also be given for the two years ending 1936-37, the accounts of which are under publication.

2. The only other figures available are those relating to an inquiry made by the Department of Agriculture on behalf of the Imperial Council of Agricultural Research in the districts of Lyallpur, Jullundur and Gurdaspur. Six villages were chosen in each district and accounts were kept for eight holdings in each village during the three years ending 1935-36. In judging these figures it must be remembered that they are for three years only, all of which were years of comparatively low prices. Moreover, in two of the three years harvest conditions in Jullundur and Gurdaspur were in certain respects very unfavourable.

3. In writing this note we have received much assistance, which we gratefully acknowledge, from those responsible for the preparation of the accounts. They are agreed that although the accounts present an accurate picture of the holdings to which they relate, it would be rash to generalize from them in regard to the districts concerned, and much more so to the province as a whole. We emphasize this point because we have found a disposition in certain quarters to draw wide, and, as we think, far too sweeping deductions from them.

4. It may be added that the accounts in the Farm Account series are kept by the cultivators concerned, and the holdings were chosen not so much because they were typical as that they were readily accessible and were cultivated by men who could keep accounts and were willing to co-operate. In the case of the Imperial Council of Agricultural Research Enquiry the accounts were kept by the employees of the Agricultural Department, and to this extent they are more reliable. But in both cases, for accounts purposes, they include factors which do not represent actual expenditure in the year in question. For example, in the case of cattle twenty per cent of their capital charge is debited each year for depreciation and interest, although nothing may actually be spent during the year upon cattle. When prices fall abruptly, this has for some years the effect of reducing net income much below what it would be were the accounts kept on a cash basis. The point should be carefully borne in mind in considering the figures given in paragraphs 22 and 23 below, and it means that accounts kept on this principle may be misleading unless viewed over a period of at least five years. We have therefore omitted figures which were available for only one year.

5. As prices are a dominant consideration in judging the figures given in this note, a table of the prices of the more important crops for the 11 years ending 1936-37 is given at the end of the note.

Part I.

Return per adult Cultivator.

6. The following table shows the return per worker on 23 holdings scattered over ten districts on the assumption that the whole net income of the holdings was enjoyed by the workers :—

	Net income per worker.[1]	
	Per annum.	Per day.
	Rs.	Rs. A. P.
1934-35	164	0 7 2
1935-36	164	0 7 2
1936-37	198	0 8 8

[1]The figures are only available for the three years ending 1936-37. They represent the return for manual labour, management and ownership, but not for interest on capital, which has been included in expenditure. Land revenue and cesses have also been included in expenditure.

The figures show that in three depression years the owner-cultivator on these 23 holdings would have earned on an average nearly eight annas a day, a return that is the equivalent of a wage of at least a rupee a day in the town.

7. For Risalewala and its 48 tenant holdings similar figures are available for 11 years, thus :—

	Return per adult worker.	
	Per year.	Per day.
	Rs.	Rs. A. P.
1926-27	487	1 5 4
1927-28	444	1 3 5
1928-29	510	1 6 4
1929-30	407	1 1 10
1930-31	124	0 5 5
1931-32	180	0 7 11
1932-33	310	0 13 7
1933-34	208	0 9 2
1934-35	266	0 11 8
1935-36	312	0 13 8
1936-37	255	0 11 2
Average ..	318·1	0 13 11

It will be seen that the average return for these 11 years, seven of which are depression years, is almost fourteen annas a day, which is equal to at least Re. 1-12-0 a day in the town. If the four pre-depression years are excluded, the average return is still over ten annas. It is to be remembered, however, that being under the management and control of the Agricultural Department, Risalewala is unusually well farmed. On the other hand, a substantial sum (about 1/7th of the total expenditure of 1934-35) has been included in expenditure on account of the expenses of management. Even if we deduct one-quarter for special

circumstances, the average daily return for the whole period will be about 10½ annas.

8. Figures for the Imperial Council of Agricultural Research Enquiry may now be given. These are for the three years ending 1935-36 :—

	Return per adult worker.	
	Per year.	Per day.
	Rs.	Rs. A. P.
Lyallpur	254	0 11 2
Jullundur	96	0 4 2
Gurdaspur	71	0 3 1

No average has been struck for the three districts as circumstances in each differ too greatly for this to be helpful.

It will be seen that the return is much greater in the case of Lyallpur than in the other two districts. One reason for this is that in the first two years harvest conditions in Jullundur and Gurdaspur were unfavourable for one or more important crops.[1] The enquiry illustrates the danger of basing conclusions upon the returns for three years only.

In the case of Lyallpur the returns are comparable with those given above for Risalewala, which is also in Lyallpur. The average for these three years is 11½ annas which is only four pies a day higher than the figure for the 48 Risalewala holdings. It would seem, therefore, that farming in Lyallpur, even at present prices, is not unremunerative.

Part II.

The Cultivator compared with the permanent Agricultural Labourer.

9. We must now consider how the owner-cultivator compares with the permanent agricultural labourer. For this

[1] In Gurdaspur and Jullundur maize and cotton suffered from excessive rain in 1933-34, and in 1934-35 sugar-cane suffered from pyrilla and frost so badly that gur could not be made in either district.

purpose we give below figures for ten years relating to Risalewala, which are the only figures available for more than one year :—

Year.	Paid to permanently hired labourers. (a)	Return per day earned per family member for	
		Manual labour and management. (b)	Manual labour, management and ownership of land. (c)
	Rs. A. P.	Rs. A. P.	Rs. A. P.
1927-28	0 5 11	0 6 8	1 4 8
1928-29	0 5 9	0 8 10	1 7 10
1929-30	0 5 6	0 5 9	1 3 6
1930-31	0 3 6	0 0 9	0 6 10
1931-32	0 4 2	0 3 0	0 9 5
1932-33	0 4 10	0 5 5	0 15 1
1933-34	0 3 11	0 3 7	0 10 9
1934-35	0 3 11	0 5 2	0 13 9
1935-36	0 4 0	0 6 7	1 1 0
1936-37	0 4 8	0 5 0	0 15 0
Average ..	0 4 7	0 5 1	0 15 2

Column (*a*) is strictly comparable with column (*b*), since the figures in column (*b*) represent what would have been earned by a tenant-cultivator, i.e., by a man on exactly the same footing as a labourer except that he has to manage the land and pay rent for it. The last column represents what the owner-cultivator would have earned : it is higher than what the tenant gets because no rent has to be paid. The difference, in fact, represents the economic rent of the land.

10. It will be seen that only in three years 1930-31, 1931-32 and 1933-34, all of which were years of acute depression, would the tenant-cultivator have earned less than the hired labourer ; and for the whole decade he would have earned an average of Re. 0-5-1 a day (Rs. 116 a year) against Re. 0-4-7. For the owner-cultivator the average is Re. 0-15-2.

11. The point of the comparison is, that, if, in the case of the Risalewala Farm land revenue had been assessed during this decade on the net profits of direct cultivation, and if in calculating these profits an allowance had been made for the labour employed on the basis of the figures given in column (*a*)

owner-cultivators' net assets would have been greater than landlords' net assets, and land revenue would have been correspondingly higher.

Part III.

Calculation of net assets.

12. This brings us to the question whether the owner-cultivator would gain if net assets were taken to be the net profits of direct cultivation instead of being based on rents. The following figures, which Professor Labh Singh has kindly worked out for us, throw some light upon this important question. They relate to the Government farm of Risalewala and are in terms of net assets per acre :—

	Net assets per acre based on	
	(*a*) Landlords' net assets, i.e., the rent obtainable for the land, less expenses directly connected with its cultivation (except land revenue).	(*b*) Owner-cultivators' net assets, i.e., the gross income from direct cultivation less all cultivation expenses (including wages of manual labour but excluding land revenue).
	Rs.	Rs.
1927-28	42·85	44·70
1928-29	44·79	52·62
1929-30	42·27	43·23
1930-31	21·96	15·39
1931-32	22·23	20·29
1932-33	30·76	32·53
1933-34	25·13	24·56
1934-35	28·23	31·81
1935-36	32·37	38·86
1936-37	31·94	32·15

It will be seen that in this case assessment on the present system would have been to the advantage of the land revenue payer in every year except 1930-31, 1931-32 and 1933-34. A reference to the figures given in paragraph 22 will show that these were much the worst depression years, and the table suggests that it is only in years of depression, or even of great depression, that a change of system might benefit the land revenue payer. This will be

clear if these 11 years are divided into three periods according to prices and the figures are averaged, thus :—

	Net Assets per acre based on	
	(*a*) Landlords' Net Assets.	(*b*) Owner-cultivators' Net Assets.
	Rs.	Rs.
(1) Pre-depression—3 years ending 1929-30.	43·80	46·85
(2) Acute depression—4 years ending 1933-34.	25·02	23·19
(3) Less severe depression—3 years ending 1936-37.	30·85	34·27

It will be seen that only in the middle period did net assets under (*a*) exceed net assets under (*b*).

Part IV.

Percentage of land revenue (excluding cesses) to gross and net income respectively.

13. We may now consider what percentage of the gross income is absorbed by land revenue under the present system. The following table shows this for six years in the case of the Farm Accounts holdings :—

	Percentage of land revenue to Gross income.	
	Older districts.	Canal colonies.
1931-32	5·9	9·9
1932-33	4·8	9·6
1933-34	6·5	10·5
1934-35	5·4	9·2
1935-36	6·3	8·5
1936-37	4·5	6·2
Average	5·6	9·0

These figures are striking, for they show that even during the recent depression land revenue was only 5·6 per cent of gross income in the case of the non-colony holdings and nine per cent in the canal colony holdings (including Risalewala). It is noticeable that the percentage is much higher in the canal colony holdings, although the figures given in paragraphs 7 and 8 suggest that cultivation pays better in the colonies than elsewhere. The inference would seem to be that colony land can bear a higher incidence of land revenue than land elsewhere.

14. The figures for the Imperial Council of Agricultural Research Enquiry give much the same results, thus :—

	Percentage of land revenue (excluding cesses) to gross income.
	Rs.
Lyallpur	10·6
Jullundur	6·0
Gurdaspur	6·5

These figures relate to the three years ending 1935-36 and correspond sufficiently closely with those given for the same period in the last paragraph, the average being 6·1 in the older districts and 9·4 in the canal colonies.

15. Figures for Risalewala may also be given in this connexion as they cover 11 years, and in this case figures for net income are available.

	Percentage of land revenue (excluding cesses) to—	
	(*a*) Gross income.	(*b*) Net income.[1]
1926-27	4·5	9·4
1927-28	4·5	10·4
1928-29	4·3	8·9

[1]The cost of labour has been allowed for as in the case of the figures given *in* paragraph 18 (see heading of last column).

	Percentage of land revenue (excluding cesses) to—	
	(*a*) Gross income.	(*b*) Net income.[1]
1929-30	4·7	11·4
1930-31	8·4	79·0
1931-32	8·4	36·8
1932-33	6·4	16·7
1933-34	7·4	28·7
1934-35	6·8	20·2
1935-36	6·1	15·3
1936-37	6·1	18·6
Average[2] ..	5·8	15·6

It will be seen that in this case, not even in the worst of the depression years, did land revenue absorb as much as 8½ per cent of the gross produce, and in the four pre-depression years it absorbed less than five per cent. For the whole period the average is less than six per cent of gross income and about 15½ per cent of net income.

16. The figures for net income are of special interest, for they show how variable is the proportion taken by land revenue. By concentrating attention upon the two worst years of the depression, viz., 1930-31 and 1931-32, it could be shown that land revenue represented an average of fifty per cent, and even as much as 79 per cent in one year, whereas for the whole period the average is less than 16 per cent. We draw special attention to this point as great play has been made by critics of our land revenue system with the figures given in the Farm Accounts series for the earlier years of the depression. It is true that for the seven years of depression the average is 23·3 per cent, but it is to be remembered that the sliding scale system was only introduced into the district in 1936-37, and in that year the percentage was only 18·6. Incidentally the figures show how light the burden of land revenue still is, when land is well farmed.

[1] The cost of labour has been allowed for as in the case of the figures given in paragraph 18 (see heading of last column).

[2] These averages and those in paragraph 16 are calculated, not by adding the percentages in the above table, but by adding the actual figures for gross income, net income and land revenue for the years to which they relate.

Part V.

RATIO OF EXPENDITURE TO GROSS INCOME.

17. Professor Brij Narain estimates that, taking good and bad years together, cultivation expenses represent from 75 to 80 per cent of gross income, whereas in the recent settlement of Lyallpur the allowance made was only 55½ per cent. From this he argues that land revenue absorbs more than the maximum 25 per cent of net assets, calculated in terms of direct cultivation.

18. The most helpful figures on this point in the Farm Accounts series are those relating to Risalewala, since they cover a period of 11 years:—

	Percentage of expenses to gross income.	Percentage of labour charges to gross income, assuming Rs. 120 per annum per adult worker.
1926-27	52·0	Not available.
1927-28	57·1	13·9
1928-29	52·1	13·2
1929-30	59·1	13·4
1930-31	89·2	23·4
1931-32	77·1	23·3
1932-33	61·9	19·4
1933-34	74·1	23·3
1934-35	66·3	21·0
1935-36	60·2	18·5
1936-37	67·1	19·9
Average ..	62·8 (11 years).	18·9 (10 years).

It will be seen that for the whole period expenses, which include an allowance for wages at Rs. 120 per annum per man (about 5¼ annas a day), are just under 63 per cent of gross income. They

also include eight per cent on account of management expenses, the farm being managed and supervised by a Farm Manager and three *Mukaddams*. Presumably, this skilled management has led to some increase in gross income, but whether proportionately it is impossible to say. Mr. Kirpalani's evidence shows that there is room for doubt on the subject.

The following extract may be quoted :—

> " Although there is no evidence of facts and figures, practical zamindars who have been engaged in agriculture for a very long time are generally of opinion that costs of cultivation on farms run by the Agricultural Department are very high. In some of the Arain Chaks, close to the chaks of literate grantees in the Lyallpur district, I heard the opinion expressed that although some of the graduates got high yields, probably their net income was not equal to the income earned by zamindars elsewhere."

It will be seen further that for the four pre-depression years the percentage averaged only 55 (compare 55½ taken for settlement purposes) and that it was at its highest in the years of acutest depression.

The figures in the last column are of special interest as they are based upon a very adequate scale of wages. For ten years the average is nineteen per cent as against 25 to 30 per cent taken by Professor Brij Narain.

19. It is interesting to compare this with the corresponding figure for the 48 holdings in the Lyallpur district which were examined in the Imperial Council of Agricultural Research Enquiry. The figure, which relates to the three years ending 1935-36, is 63·2 per cent.[1]

20. One more set of figures may be given in this connexion. A few years ago land in the Lyallpur district was granted on tenancy conditions to a number of unemployed graduates. Two of these have kept accounts for the two years ending 1936-37 on the system employed in the Farm Accounts series. Each received two squares (about 55 acres) and their expenditure excluding all rental charges, i.e., *malikana,* land revenue and cesses, during the two years averaged in the one case 61 per cent, and in the other 54½ per cent of gross income.

As in the Risalewala figures, expenditure includes the labour employed in cultivation, but in this case it was all hired and had to be paid for at comparatively high rates, viz., from Rs. 160 to Rs. 172 per annum, as the land was situated in a new and undeveloped colony.

[1]The figure includes a fair allowance for the cultivator's labour.

The broad conclusion would seem to be that (*a*) the costs of cultivation vary greatly with prices, and (*b*) in Lyallpur, taking good years with bad, they average about sixty per cent of the gross produce. On the quarter net assets basis this admits of ten per cent of the gross produce being taken as land revenue. In districts where well irrigation is an important factor the average will presumably be higher, as well irrigation is much more costly than canal irrigation. This is reflected in the present assessment of the Lahore and Chunian tahsils. There the Settlement Officer proposes to allow 69 and 72 per cent, respectively, for the cost of cultivation.

In passing it may be noted that in the two years 1935-37 one of the two graduate grantees, who is an exceptionally keen farmer, earned an average net profit of Rs. 21 per matured acre. This is further evidence that farming in Lyallpur is still remunerative when the land is properly farmed.

21. One fact may be stated in regard to the figures given under this section. It has been shown in paragraph 13 that in the case of many of the Farm Account holdings land revenue even now averages round about six per cent of gross produce. If land revenue is only six per cent of gross produce and also represents 25 per cent of estimated net assets, the latter will be 24 per cent of gross produce, and 76 per cent will be available to meet the costs of cultivation. On the other hand, if land revenue is ten per cent of gross income, net assets will be forty per cent and only sixty per cent will be available for costs.

Part VI.

VARIATION OF NET INCOME WITH PRICES.

22. The figures from which the percentages just given have been taken may be used to illustrate another point, namely, the extent to which net income varies with prices. This may be shown thus :—

Year.	Net Income. Rs.
1928-29	381
1929-30	239
1930-31	91
1931-32	139
1932-33	246
1933-34	141
1934-35	217

Year.	Net Income.
	Rs.
1935-36	209
1936-37	276
Average ..	215·2

It will be seen that in a single year (1930-31) net income dropped from Rs. 239 to Rs. 91. On the other hand, it rose again in two years to Rs. 246, and by 1936-37 it was higher than in the year before the great fall in prices took place.

Part VII.

EFFECT OF A FALL IN PRICES ON THE COSTS OF CULTIVATION.

23. An explanation of the variation discussed in the last paragraph is to be found in the relative effect of an abrupt fall in prices on the income and expenditure of cultivation. This is illustrated by the following figures, which have been taken from the same series as the last two tables given above :—

	INDEX YEAR, 1928-29.		
	Gross income.	Expenditure.	Net income.
1928-29	100	100	100
1929-30	83	104	63
1930-31	49	75	24
1931-32	49	63	36
1932-33	71	77	65
1933-34	54	71	37
1934-35	65	74	57
1935-36	62	69	55
1936-37	73	75	72

It will be seen that whereas gross income fell from the index figure of 100 in 1928-29 to 49 in 1930-31, expenditure[1] fell to only 75. Net income in these two years consequently shrunk far more than gross income, declining by over three-quarters as compared with about a half in the case of gross income.

[1]Expenditure does not include either rent or any return for the labour of the cultivator and his family.

Assuming that net income and net assets are identical it follows that, if land revenue represented 25 per cent of net assets in 1928-29, it exceeded total net assets in 1930-31; and further that, even if under the sliding scale system a remission had been given proportionate to the fall in gross income, land revenue would still have represented about 50 per cent of net assets.

24. Let us, however, consider the figures further. Gross income, which fell to 49 in 1930-31, rose to 73 in 1936-37, while expenditure was the same in both years. Correspondingly, net income rose from 24 to 72. Had, therefore, an assessment at 25 per cent of net assets been made on the basis of the figures for 1930-31, the proportion taken in 1936-37 would have been only 8½ per cent. According to these figures, therefore, if there is a lag in the fall in costs when prices fall, there is also a lag in the reverse direction when prices rise.

25. This comparison assumes that assessments are made on the basis of single years. Actually the practice is to take a series of twenty or thirty years omitting years of famine or severe scarcity. The more recent settlements, therefore, have been based on a scale of prices considerably higher than that which has prevailed since 1929-30. It is probable, therefore, that their incidence has been accentuated by the lag in prices. So far as those who let out their land are concerned, this tendency will have had a comparatively mild effect, for net assets are calculated in terms of landlords' rentals less certain deductions, and as these rentals and deductions are mostly paid by a share of the produce, the ratio between gross income and net assets does not vary very considerably with either a rise or a fall in prices. In Lyallpur, the last district to be settled, it would not vary at all but that water rate has to be allowed as a deduction, since half is paid by the landowner. Being fixed and being paid in cash, its ratio to total costs necessarily increases. This is shown by the following calculation :—

	At commutation prices.	Assuming a fall in prices of—	
		(*a*) 50 per cent.	(*b*) 25 per cent.
	Lakhs. Rs.	Lakhs. Rs.	Lakhs. Rs.
Value of total produce ..	227·85	113·92	170·88
Less charges of *kamins* at 9 per cent.	20·51	10·25	15·37
Remainder	207·34	103·67	155·51

	At commutation.	Assuming a fall in prices of —	
		(*a*) 50 per cent.	(*b*) 25 per cent.
	Lakhs. Rs.	Lakhs. Rs.	Lakhs. Rs.
Share of the landlord (one-half)	103·67	51·83	77·75
Less half the water rate[1] ..	9·36	8·42	8·42
Remainder	94·31	43·41	69·33
Add half the land revenue, *malikana* and cesses.	10·51	6·28	9·42
Total ..	104·82	49·69	78·75
Less half the cost of seed ..	4·26	2·13	3·19
Net assets	100·56	47·56	75·56
Maximum demand	25·14	11·89	18·89

If prices fall fifty per cent below commutation level, under the sliding scale system the maximum demand would be 12·57 lakhs, i.e., half the maximum demand shown in the first column of figures ; whereas the figures in the next column show that 25 per cent of net assets, other things being equal, would be only 11·89 lakhs. In other words, the demand would be 26·4 instead of 25 per cent of net assets. On the other hand, the figures in the last column show that, with only a 25 per cent fall in prices, the 25 per cent ratio will not be exceeded. This is because in the Lyallpur settlement only 24 per cent of net assets has been taken. This leaves a margin, though whether the margin is wide enough depends upon the course of prices during the period of settlement, which no one can foretell. Incidentally it may be observed that under the law there is no obligation on Government not to take more than 25 per cent in a given year, provided that the settlement estimates, duly framed, keep within this limit.

26. The calculation given in the last paragraph shows that, though a fall in prices disturbs the ratio of land revenue to landlords' net assets, the disturbance is much slighter than the figures given in paragraph 23 might have led one to expect.

[1]Water rates were reduced by about ten per cent in 1934.

This is because under the *batai* system the lag of which we have spoken presses more heavily upon the tenant than the landlord and reduces his net income much more sharply.

27. Technically this is not a point that need be taken into consideration under the law as it stands, since net assets, of which land revenue is a certain proportion, are based upon landlords' rentals. But in practice it cannot be entirely ignored, because the majority of revenue-payers do not give their land out on rent but cultivate it themselves[1] and if they feel the lag less acutely than tenants, it is only because they do not have to pay rent for their own lands. Actually many of them are tenants as well as owners, being obliged to take land on rent to make both ends meet. Until, therefore, the fall in costs overtakes the fall in income, even with the application of the sliding scale, they will have to pay a higher proportion of their net assets than before the fall began ; and if, when the fall began they were paying a full 25 per cent and the fall is at all abrupt, the proportion may well rise much above 25 per cent, as is shown by the table in paragraph 23.

28. On the other hand, the reverse is equally true when prices rise abruptly. This is an argument against basing an assessment upon such high commutation prices that they are likely to be more often above than below current prices. If a middle level is taken, it may reasonably be expected that actual prices will be as often above as below the level, in which case the lag in one direction should roughly off-set the lag in the other. This involves a sliding scale which slides upwards as well as downwards, and it is one reason why we have recommended it. If, too, as we have also recommended, remission follows more freely when prices fall than enhancement when prices rise, it should be possible to avoid all injustice to the owner-cultivator, though at some expense to the State.

29. Much has been made by some critics of the apparent injustice of the present system, especially in the case of the recent Lyallpur settlement, which is based upon a scale of commutation prices much above current prices. But this criticism is largely founded upon figures given in the Farm Accounts series for the first few years of the depression when it was most acute, and upon the assumption that during the next thirty or forty years prices cannot be expected to move much above their present depression level. It is true that in the case of our more important staple products the prospects for a rapid rise in price are not bright, but we must be on our guard against treating as normal any state of affairs which persists for a few years.

[1]There is no statistical evidence available on this point for the whole province.

30. It seems to be further assumed by the same school of critics that it must be some years before the lag in fall between income and expenditure can be made up. Yet the figures given in paragraph 23 show, if the 23 holdings in question are any guide, that the lag had almost disappeared by 1936-37.

This tendency is brought out even more clearly by the following table, which relates to four holdings in the canal colonies, the area most responsive to any movement of prices since farming there is on a more commercial basis than anywhere else in the province :—

	THE INDEX NUMBER IS THE AVERAGE OF THE THREE PRE-DEPRESSION YEARS ENDING 1928-29.		
	Gross income.	Expenditure.	Net income.
	Rs.	Rs.	Rs.
1926-27	112	101	123
1927-28	84	95	74
1928-29	104	104	103
1929-30	86	100	74
1930-31	47	73	24
1931-32	55	64	46
1932-33	61	65	58
1933-34	57	63	52
1934-35	65	62	67
1935-36	77	70	83
1936-37	75	73	77

The figures indicate that the lag had disappeared by 1934-35 and that with the slight rise in prices which took place in the next two years the reverse lag had set in : for example, in the three years ending 1936-37 gross income rose by 17·3 per cent and expenditure by only 2·1 per cent.

31. Our conclusion, therefore, is that when prices fall at all abruptly there is a lag between the fall in the gross income of a farm and the fall in its expenditure. To this we would add—

(*i*) that if prices continue at a low level, equilibrium is likely to be re-established in the course of a few years ;

(*ii*) that when prices rise from either their new or their original level, there is a corresponding lag in the reverse direction ; and

(*iii*) that, in whichever direction the lag operates, the more abrupt the rise or fall in price, the more marked the lag will be.

If, therefore, in one period a fall in prices involves a larger proportion of net assets being taken as land revenue, in another a rise may involve a lower proportion being taken. Over a period of forty years, with medium commutation prices, the one tendency may well off-set the other. Moreover it is not likely to be as marked as when rents and costs are largely paid in cash.

ANNEXURE I.

Wholesale Harvest Prices.

Year.	Wheat.	Gram.	Rape seed.	Gur.	Cotton.	
					Desi.	American.
	Rs. A.	Rs. A.	Rs. A.	Rs. A.	Rs. A.	Rs. A.
1926-27 ..	4 8	3 14	7 7	5 15	7 14	9 6
1927-28 ..	4 6	3 13	7 3	5 6	10 13	13 12
1928-29 ..	4 6	4 12	7 0	6 2	10 0	13 2
1929-30 ..	3 2	3 12	5 12	6 5	6 15	8 15
1930-31 ..	1 9	1 14	3 13	4 2	4 7	5 9
1931-32 ..	2 1	1 13	3 8	3 13	5 7	6 10
1932-33 ..	2 11	2 4	3 8	2 12	5 10	6 14
1933-34 ..	2 2	1 12	3 5	3 4	4 4	5 6
1934-35 ..	2 4	1 15	4 6	4 9	5 1	8 2
1935-36 ..	2 6	2 0	4 6	4 0	5 7	6 13
1936-37 ..	3 0	2 6	4 12	3 5	5 14	7 6

NOTE B.

QUESTIONNAIRE.

I. Principles of Income-tax Assessment.

YEARLY ESTIMATE.

1. The assessment of Income-tax is based on a *yearly* estimate of the net profits of every assessee.

(1) Is it practicable to estimate each year, and therefore each harvest, the net assets of each land revenue payer —

(*a*) when the system of land revenue assessment is fluctuating,

(*b*) when it is fixed.

(2) In both cases the chief variable factors for the purposes of assessment are —

(*a*) the nature of cropping,

(*b*) the yield of each crop,

(*c*) the current market price of each crop.

In the case of the fixed land revenue a further variable factor is the area matured.

Is it practicable and advisable to modify the existing system of land revenue by reducing the variable elements, by any or all of the following methods :—

(*a*) Replacing the fixed system of land revenue by the fluctuating system ;

(*b*) by fixing different rates for (1) each crop, or (2) groups of crops as in the case of water rate (abiana) ;

(*c*) by introducing the sliding scale system of assessment so far as prices are concerned. A copy of the *communiqué* issued by Government in connexion with the Lyallpur settlement, which explains the principles of the sliding scale system of assessment, is attached as Appendix A.

(3) The above methods would take account of the chief variable factors except yields. Would it be practicable and advisable to allow for variations in yields by increasing or reducing the basic assessment rate each harvest for each crop, according as the harvest yield was in excess of, or less than, the yield assumed at assessment ?

If so —

(*a*) what limits, if any, should be placed on the increase or reduction ?

(*b*) what agency would be employed to determine the yield of each crop at each harvest ?

(*c*) what rights of appeal, if any, should the land revenue payers have in regard to the increase in the existing rate ?

(*d*) what would be the political effects of varying the land revenue assessment each harvest according to the estimated yield ? Would it be popular with the people ? Would it lead to discontentment when rates are increased ? Would it tend to encourage corruption ?

2. (*a*) If it is considered impracticable to adopt a yearly system of estimates for each land revenue payer, would it be practicable and advisable to revert to the system of land revenue collection in kind ?

(*b*) What would be the advantages and disadvantages of such a system ?

(*c*) What would be the agency through which it should be carried out ?

(*d*) Would it be acceptable by the people ?

(*e*) How could corruption be checked ?

(*f*) What would be the standard of assessment ?

(*g*) Should it be based on gross or net produce ?

(*h*) Should it vary from assessment circle to assessment circle ?

3. If drastic changes in the present system of assessment are recommended —

(1) Is it desirable to introduce them simultaneously all over the province ?

(2) If so, what changes in the present law would be necessary ?

(3) The land revenue system is at present regarded as a contract between the State and land revenue payer, the period of the contract being the term of settlement. Is it recommended that the contract should be set aside so that (*i*) some land revenue payers may gain from the change, and (*ii*) some may lose from the change ?

4. The alternative course would be to introduce changes gradually as settlements expire. This would mean that it would take 40 years before the changes were complete, and until they were complete, inequalities would exist between different districts. Is this alternative recommended ?

MINIMUM LIMIT OF ASSESSMENT AND SMALL HOLDINGS.

5. How would you define in terms of the amount of land owned—

(*a*) the small holder,

(*b*) an economic holding.

having regard to the fact that the annual value of a holding is affected by soil, irrigation, location, fragmentation and proximity to *abadi* and *mandi* ?

Would you include in small holders persons who did not themselves cultivate land, but were mainly dependent on other sources of income ?

6. (*a*) Having regard to the attached rough estimate[1] of land revenue payers now paid in various grades, do you recommend the exemption of any grade or grades ? If so, of which ?

(*b*) Should those who do not cultivate be included in the exemption ?

Note.—There is reason to believe that amongst small holders the number of those who do not cultivate is large.

7. (*a*) If a minimum limit is fixed, should it be in terms of the acreage owned or of the amount of revenue paid ?

(*b*) How should mortgagees with possession be treated ?

8. If you recommend a minimum limit for individual revenue payers, what would be the approximate loss to Government on the basis of the attached estimate ?

9. How would you provide (1) for joint families, (2) partitions, (3) inheritance, (4) fictitious mortgages, (5) gifts by a father during his lifetime to his sons in order to bring the shares within the exemption ?

10. (*a*) If the exemption applied to the individual person or the individual holding, would not the result be to give a great impetus to partition and the consequent sub-division of holdings ?

(*b*) Will this not lead to the multiplication of uneconomic holdings ?

(*c*) What methods should be adopted to check this ?

[1]Not printed.

11. Even if exemptions once allowed were not subject to revision for a period of years—say 10 or 20 years, what methods could be taken to check partitions and sub-divisions when the time for revision of exemptions drew near ?

12. To some extent the small holder is already favourably considered in assessment ; e.g., congested tracts are more lightly assessed than less congested, and in the distribution of the revenue over estates in an assessment circle estates consisting of small holders tend to get easier rates. Is it desirable to strengthen this tendency ? If so, how can it best be done within the present system ?

In this connexion, please see the instructions given in paragraphs 384—408 of the Settlement Manual (copy attached as Appendix B).

13. In assessing small proprietors, is it possible to differentiate between those who cultivate themselves and those who let their land on cash rents or *batai* ?

14. As an alternative to exemption should small holders be given remissions more freely ?

15. Is there any reason to believe that land revenue is a tax upon labour and costs instead of upon surplus ?

Please see the instructions given in paragraphs 384—408 of the Settlement Manual (attached as Appendix B).

16. Would you amend the present definition of net assets in section 3 (18) of the Land Revenue Act (Appendix C)?[1] If so, how ?

Note.—The present definition virtually defines net assets as the ascertained normal rent taken by landlords minus deductions paid out of rent and directly connected with the cultivation of the land. A possible alternative might be to define it in terms of the profits on direct cultivation, i.e., to take the gross produce minus the cost of production. But the Select Committee which considered the Land Revenue Act Amendment Bill of 1928 decided in favour of the former, as it was considered that the latter " would be surrounded with difficulties and involve too great a degree of assumption, inference and uncertainty ".

17. What do you say to the suggestion that in principle income-tax should be levied at a heavier rate on unearned than on earned income, e.g., the net income received by a person from, say, urban house property should be taxed more heavily than that received by him as a salary earned by personal labour. If so, to what extent would you be satisfied (*i*) if the definition of " net assets " (*vide* Appendix C) were amended so that " net assets " should really represent the average annual surplus, if it is assumed that it does not already do so, and (*ii*) if a heavier tax were levied on non-agricultural unearned income than at present, with a view gradually to assimilating it so far as its nature permits, to land revenue, rather than *vice versa* ?

[1]Not printed, but see page 21

GRADUATED SYSTEM OF ASSESSMENT.

18. Assuming that a minimum limit of assessment is not practicable, is it possible to have a graduated system of assessment by which relief could be given to the small holder ?

19. Assuming that it was desirable to redistribute the existing demand as between various classes of owners, and that legislation was passed accordingly, is there any practicable scheme by which this could be done, e.g., by taking the assessment circle as the unit of redistribution, or by taking the individual estate ?

20. Without a complete redistribution, is any scheme feasible by which a surcharge could be made on land revenue payable by large owners and the amount so obtained distributed in relief to small owners ?

What surcharges should be made on the following demands of land revenue :—

(1) Rs. 10,000 or above.

(2) Above Rs. 5,000 and below Rs. 10,000.

(3) „ „ 1,000 „ „ Rs. 5,000.

(4) „ „ 500 „ „ Rs. 1,000.

(5) „ „ 250 „ „ Rs. 500.

(6) „ „ 100 „ „ Rs. 250.

(7) „ „ 50 „ „ Rs. 100.

What would be the amount of the additional revenue so obtained, and what relief respectively would it give, if distributed over the land revenue payer paying :—

(1) less than Rs. 25,

(2) less than Rs. 15,

(3) less than Rs. 10,

(4) less than Rs. 5 ?

21. Can you suggest any indirect methods of taxation of agricultural produce or agricultural income for the purpose ?

22. If this relief is not regarded as sufficient, what further relief is recommended, and how could the whole or part of the loss to provincial revenues be made good ?

23. Would it be possible to give material assistance to the small holder if the principle of graduation were introduced

into the levy of local rates instead of into the assessment of land revenue ?

Note.—(*a*) It has been suggested that land revenue payers might be classified in four classes according as they paid Rs. 15 or less, Rs. 15 to Rs. 40, Rs. 40 to Rs. 80 and over Rs. 80, and that local rates should be graduated accordingly, whatever is remitted in the first two classes being paid by the other two.

(*b*) Local rates average about 15 per cent of the land revenue.

MISCELLANEOUS INCOME-TAX PRINCIPLES.

24. If income-tax principles are applied how would you allow for—

(1) depreciation upon—

(*a*) livestock,

(*b*) implements and carts,

(*c*) means of irrigation, e.g., wells, kuhls, etc.,

(*d*) buildings ?

(2) interest charges upon borrowed capital ?

(3) insurance payments on account of—

(*a*) life insurance policies,

(*b*) agricultural livestock and dead stock ?

(4) agricultural losses, e.g., owing to calamity—

(*a*) if a revenue payer owns land in more than one area, should he be allowed to set off his losses in one place against his profit in another ?

(*b*) if so, should this be confined to areas within the Punjab ?

25. How would you deal with the Hindu undivided family ?

Note.—Under Income-tax Law the Hindu undivided family is treated as one person, but is not recorded or recognized as such in the Revenue Records.

26. (*a*) If income-tax principles are applied, should agricultural income earned outside the Punjab be taken into consideration whether remitted to the Punjab or not ?

(*b*) Should there be any differentiation between agricultural income earned in British India and agricultural income earned in an Indian State and brought into the Punjab ? If so, how should it be ascertained in the latter case ?

Note.—A very large area is cultivated by Punjabis in Bahawalpur and also, it is believed, in Sind.

27. To what extent can the principles of income-tax be applied without requiring land revenue payers to keep accurate accounts ? If they do not keep accurate accounts, how should their income be determined ?

28. Should non-agricultural income of a land revenue payer be taken into consideration in determining the land revenue rate chargeable on his agricultural income ?

General Questions.

29. Is there any reason to suppose that the payment of land revenue hampers the development of agriculture, e.g., is there any sign of this in any district which is heavily assessed compared with one which is lightly assessed (e.g., Lahore) ?

30. Is there any reason to suppose that land revenue has anywhere made agriculture unprofitable ? For example, has any land gone out of cultivation in order to avoid the payment of land revenue ?

31. Is there any reason to suppose that the payment of land revenue has made it difficult for the small holder to maintain himself and his family ?

32. Would exemption or a substantially lower rate raise the standard of living of the small holder ? Or would it mainly tend to an increase of population ?

33. Will a graduated scale of land revenue, with a higher rate for large owners, affect agricultural development in so far as this depends upon large owners ?

34. Would a graduated scale tend to weaken the communal bond in villages ?

35. Application of the principles of income-tax would involve the abolition of the present limit upon (*a*) the period of assessment prescribed by section 53-A of the Land Revenue Act, and (*b*) the enhancement of land revenue on re-assessment, see sections 48-B and 51 (3) of the Act. Do you regard this as a bar to the application of these principles ?

36. Should tenants and mortgagees be taxed in respect of their profits from agriculture ?

37. If land revenue were reduced, would any part of the benefit be passed on to the tenant who at present pays no part of the land revenue ?

38. When Government gives canal irrigation to a large tract of proprietary area, should the whole of the unearned increment accruing as the result of the irrigation go to the landowners ? If not, what share should the State take ? And how should it take it ?

39. If the principles of income-tax are applied, there will be a tendency, if population continues to increase, for revenue to decrease very substantially as the result of the consequent sub-division of holdings. This will probably involve restriction of the beneficent activities of Government. Are you in favour of this ?

40. If exemptions are granted—

(*a*) should *lambardars* be indemnified for the consequent loss of *pachotra* ? ;

(*b*) should the concessions be applied to the local rate ? If so, how should the loss of revenue to District Boards be made good ?

41. Would not a reduction in land revenue increase the capital value of the land and so make it easier for the landowner to borrow ? Will this be for the benefit of the ordinary owner ?

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APPENDIX A.

[*Referred to in Question 1 (2) (c).*]

COMMUNIQUÉ.

IN the course of a speech which His Excellency the Governor made at Lyallpur on the 15th of December, he described briefly the system of land revenue assessment which the local Government propose to adopt in the tract under settlement in the Lyallpur district and the Rakh Branch circle of the Sheikhupura district. He stated that a *communiqué* would shortly issue on this subject. The Settlement Officer, in accordance with the Land Revenue Assessment Rules, has now published a vernacular abstract of the prices which he proposes to adopt for the purposes of assessment. An English translation of that abstract is attached to this *communiqué* ; and the local Government are taking the opportunity of the publication of the proposed commutation prices to explain the policy which they intend to follow, and to remove any misunderstandings which may otherwise arise in regard to it.

2. One of the most important factors which determine the assessment of land revenue is the value of agricultural produce. The practice in the past has been to take the average of the prices of each crop over a period of years, and to assume that the average thus obtained would, subject to certain corrections, represent roughly the price that would prevail during the future period of settlement. No change was then made in the land revenue rates on account of fluctuation in prices during the period of settlement.

This system worked satisfactorily so long as big changes in prices did not occur. When prices rose to unprecedented heights during and after the War, the system worked in favour of the revenue payer. Under the law, Government could not increase land revenue during the currency of a settlement merely because prices had gone up and the incidence of land revenue became comparatively light. The position changed when the slump in prices set in. Land revenue payers found it difficult to meet their dues, especially in those districts which had been re-assessed during the boom years and for which the commutation prices had been fixed at comparatively high levels. Government had to come to their help, and they have given liberal relief each harvest in the form of special remissions to meet the fall in the price of agricultural produce. In the districts not brought under re-assessment they intend to continue such special remissions so long as conditions require.

3. There remained the problem of how to re-assess those districts which were due for re-assessment. Where the assessment was light and had been fixed when prices were low, it was usually in the interest of the revenue payer to postpone re-assessment. In a district like Lyallpur where the assessment had been made when prices were high, temporary relief was and is being given in the form of special remissions, but it was considered fair to the revenue payer to devise means of permanent relief at the conclusion of the current settlement. As announced by Sir Geoffrey de Montmorency in a Darbar at Lyallpur on March 25, 1933, Government, therefore, decided to re-assess the district and re-settlement operations are now in progress.

The most important matter which Government had to decide was how to deal with the question of prices. The new settlement will be for a period of 40 years. No one can say at present how prices are likely to move during that time. At present they are very low. Forces which at present cannot be foreseen may cause them to fall still lower. On the other hand, there is reason to hope that they will rise. During the long space of 40 years, history may repeat itself, and there may be cycles of very high prices and of very low prices. No one can say what is likely to happen. It would certainly be very unsafe to assume that a certain scale of prices is likely to continue for 40 years. If a high scale of prices were taken and revenue rates fixed accordingly for 40 years, it would not be fair to the revenue payer. If a low scale of prices were similarly taken, it would not be fair to the Government of the future. The probability of wide fluctuations in prices is a factor which Government have to take into account.

4. After very careful consideration the Punjab Government have decided to adopt a system of assessment which will make the demand each harvest dependent on prices. The details of the scheme are given later. This system was recently introduced in the re-assessment of the Lower Bari Doab Canal Colony and is working well. Its chief features are the following :—

(1) The commutation prices proposed to be fixed by Government have been worked out in accordance with the revenue law on the average of 20 years.

(2) Average revenue rates will be worked out according to those prices, and will determine the average rate for the assessment circle as a whole.

Within the assessment circle the revenue rates will vary, as at present, in accordance with the class of land and other factors. They will in some cases be higher than the average rate. In other cases they will be lower.

(3) The revenue rates as finally announced for a particular square will represent the maxima which Government can take in any circumstances during the period of 40 years.

(4) Government will not take these maxima rates unless the general level of prices is at least as high as that represented by the prices given in the schedule attached.

(5) If in any year the general level is higher than that represented by the schedule, the revenue payers will be given the full advantage of the excess.

(6) If in any year the general level of prices is lower than that represented by the schedule, a remission in the revenue rates will be given the following year proportionate to the difference.

(7) However great the difference may be Government will give a corresponding remission. While Government will be

bound not to exceed the maxima rates as fixed, they will give to the revenue payer the full benefit of the fall in prices, however great that may be.

(8) It follows that the prices given in the schedule are, at present, paper prices, and that they will remain paper prices unless and until actual prices are equally high or higher.

5. It will generally be realized that the above system involves a revolutionary change in the methods of assessment, and that the change is entirely in the interest of the land revenue payer. It means that the revenue rates will be adjusted to the level of prices ; that however great the slump in prices may be, the relief will be proportionate ; that the revenue payer will, in no circumstances, be asked to pay more than the maxima rates, and that he will have to pay these only if prices justify them.

On the other hand and subject to what is said in paragraph 7 below, Government will gain up to the maximum as prices rise. There seems at present no prospect of that maximum being reached, and the present Government could have served their own interests equally had lower commutation prices been proposed. The prices proposed are in accordance with the revenue law of the province, and will secure for future Governments their fair share if prices reach, but do not exceed, those levels during the next 40 years. The prices assumed for the tract under Settlement are higher than those assumed for the Lower Bari Doab Canal Colony, because the Settlement of the latter is for 10 years only, whereas that of the former will be for 40 years. If actual prices do not reach the levels assumed, the revenue payer will obtain corresponding remissions.

6. Some of the details of the scheme may now be explained.

(1) The market prices of one year will determine the remissions to be given the next year. The reason for this is that instalments of land revenue are realized before the marketing of the crops is complete, and it is, therefore, impracticable to work out the scale of remissions on the prices prevailing for the current year.

(2) In deciding what prices were current in the year previous to the grant of remissions, Government will ascertain from leading firms the average daily prices actually prevailing in certain *mandis* of the tract under Settlement during the following periods of the year :—

Cotton	.. ..	November to February (inclusive).
Gur	.. ..	December to March (inclusive).
Toria	.. ..	January to February (inclusive).
Wheat	.. ..	May 15th to September 15th.
Gram	.. ..	April 15th to August 15th.

(3) From the average daily price thus obtained appropriate amounts in annas per maund will be deducted on account of transport and

marketing charges, so that the average price obtained for each crop finally will represent the average current price in the villages.

(4) The percentage of remission to be given in any harvest will be calculated by Government and will be the same throughout the tract under Settlement. The scale of remissions will be in units of 5 per cent, that is to say, they will be 5 per cent, 10 per cent, 15 per cent, or 20 per cent, etc., on the demand for each holding as calculated in accordance with the sanctioned rates of that holding.

(5) The percentage of the remission to be given will be announced each harvest and the revenue establishment in calculating the demand on each holding for that harvest will first calculate the demand at sanctioned rates; they will deduct therefrom the sanctioned amount of remission and will show the balance as the net demand to be realized. The revenue payer will be entitled to see the calculations.

(6) In calculating what remission is due for a particular year Government will bring three factors into their calculations :—

(*i*) The percentage of the total matured area under each important crop.

(*ii*) The average yield per acre of each of those crops.

(*iii*) The commutation price assumed for each of those crops.

By multiplying these figures together, Government will obtain an index figure. They will then calculate a corresponding index figure for the year previous to that for which remissions are to be given. Unless there are exceptional reasons to the contrary, it will be assumed that the percentage of crops remains constant, and that the average yield per acre is also constant. They will, however, take the prices as determined by the calculations given in sub-paragraphs (2) and (3) above. We will suppose that the standard index figure is 1,000, and that the index figure according to the new prices is 600. The remission given will then be 40 per cent. Each year a new index figure will be calculated and the amount of remission will depend on the level of prices during the previous year.

7. In what has been said above, it has been assumed that the commutation prices, as sanctioned, will give for each assessment circle, in accordance with the standard of one-quarter net assets, revenue rates which are not on the average more than 25 per cent in excess of the revenue rates imposed at last Settlement. Under the law, as it stands at present, Government cannot impose revenue rates in an assessment circle as a whole which are more than one-quarter in excess of those imposed at last Settlement; and unless the law is amended in this respect before the assessment is announced, this provision will impose an independent limit to the maxima rates which Government can fix. If, therefore, the sanctioned commutation prices give rates which are more than 25 per cent greater than the rates imposed at last Settlement, Government will have to reduce the rates accordingly. In that case it will be necessary to reduce the Settlement index figure proportionately. Supposing, for instance, that the Settlement index figure is 1,000, but that the commutation prices on which that index is calculated give for a

particular assessment circle theoretical rates which are 10 per cent more than Government can impose under the existing law, then the Settlement index figure will also be reduced by 10 per cent and will be taken as 900, instead of 1,000.

8. Although the new system will be quite simple to work, some revenue payers may have difficulty in understanding it at first. Government have, therefore, given instructions to the Settlement Officer that he should explain it freely to the people, and that he should receive any deputations who may wish to ask any questions regarding it. Government welcome the fullest discussion of it, since they are convinced that it will be generally recognized as the most important change made in the interest of the revenue payer for many years. They are confident it will be generally welcomed by the people of the tract under Settlement.

APPENDIX B.

(Referred to in Questions 12 and 15.)

PARAGRAPHS 382—408 of the Settlement Manual are reproduced below :—

382. *Capacity of expansion.*—An assessing officer must not overlook the capacity for expansion which each estate and assessment circle possesses. He must notice the amount of culturable waste (*banjar kadim*) still left and weigh the chances of its being brought under the plough. He must consider the improvements which might be effected and the likelihood of their being undertaken at an early date. But the possibility of rapid development will not justify him in imposing a demand on any circle in excess of one-fourth of the existing net assets, though it may embolden him to approach the theoretical standard more closely and to take a larger immediate enhancement than he might otherwise have thought prudent.

383. *Extraneous sources of income.*—The possession by the landowners of sources of income, such as trade and service, unconnected with the land, stands on much the same footing. The demand has often to be pitched low in view of the necessities of struggling peasant farmers. As we assess villages as a whole, and not separate holdings, it may often be impossible to avoid giving the benefit of this concession to rich and poor alike where both classes hold land in a single estate. But a rich merchant who has acquired the ownership of a whole village has no claim to it ; and, where the original landowners have fallen into poverty and parted with the bulk of their possessions to people of substance, the fact that they still retain some fragment of their ancestral holdings should not be allowed to influence greatly the pitch of the assessment. In the same way an estate which is enriched by the flow into it of pay and pensions earned in the service of Government need not be treated as leniently as an overcrowded village where the land owners depend solely on the tillage of the soil. In this case, however, other considerations may come into play for it is wise to treat with liberality men who put their swords at our service.

384. *Political considerations.*—In many parts of a province near the north-west frontier of India, which is also the chief recruiting-ground of the Indian army, much weight must obviously be given to political considerations in fixing the land revenue demand.

385. *Instruments of production.*—Turning next to the instruments of production, these can be classed as men, cattle and tools, using the last term in a loose sense so as to include not only agricultural implements, but also such appliances as carts, sugar mills and even wells. The sufficiency of these for the work they have to do and any changes, which have occurred in the cost of labour, cattle and tools call for investigation. A continuous record of wells in use is contained in the first, and of population, cattle and ploughs, etc., in the ninth, of the village circle and *tahsil* revenue registers. A statement of rights in wells forms one of the documents included in the standing settlement record (see Chapter XIV). Additional columns may be added to the form given in Appendix VII

to show the number of yokes of oxen or buffaloes employed in working the well, the area commanded by it and the average area of crops watered.

386. *Ploughs.*—Statistics of ploughs and plough oxen do not possess as much importance as they once did, and the working out of plough *jamas* is no longer necessary. The question whether the cultivated area in any village can actually be regularly tilled is best answered now a-days by an appeal to the crop returns. But the relation of the number of ploughs to the cultivated area should not be overlooked ; and, where a marked deficiency is discovered, it is well to ascertain whether the cultivation is scamped, or whether its maintenance depends on non-resident tenants. In either case account has to be taken of a source of weakness.

387. *Wells.*—The depth from which well water has to be drawn ; the character of the water-bearing stratum, the sweetness or brackishness of the water, the cost of constructing wells and providing and renewing well gear, the extent to which irrigation is assisted by rainfall or river floods, the sufficiency of the supply of well bullocks, the periods during which wells can be or are worked without intermission, their irrigating capacity as shown by the average area of crops which they water are all matters for enquiry. The water-level sometimes changes with curious rapidity, and, after 35 feet have been passed, every fall of a few feet involves either a large diminution in the irrigating capacity of the wells, or a marked increase in the cost of working them. It is a good plan to have two maps and to colour the villages in the one according to the average depth of the water-level in the wells, and in the other according to their average irrigating capacity, as shown by comparing the number of wells with the acreage of *chahi* crops. If in any estate the latter is very low as compared with other estates having the same water-level, the reason will have to be sought in the fact that the wells are in bad order or insufficiently yoked, or perhaps in the character of the landowners. Our information about the number of years that wells in different parts of the country are likely to remain fit for use is very slight. Settlement Officers should in their assessment reports not only state the total number of wells in use at the former and present settlements but also—

(*a*) the number of wells in use at the beginning of the expiring settlement which have fallen out of use, and

(*b*) the number of wells sunk during the term of the expiring settlement and still in use.

388. *Plough and well cattle.*—The quality and cost of the cattle emyloyed for ploughing or on the wells, their liability to disease and the period during which they continue fit for work are very important matters. Where the rainfall is at all scanty, the labour of men and cattle involved in well cultivation is incessant, and the necessity of replacing bullocks at short intervals is a great burden on the landowners. The cost of oxen has undoubtedly risen greatly, but so has the price of farm produce. In considering whether the farmer is worse off in this respect than he was formerly, the question is whether the price of the cattle he has to buy

has risen in a greater degree than that of the crops which he has to sell, or, in other words, has a most important item in the cost of production grown more rapidly than the money value of the produce ?

389. *Human instruments of production.*—The human instruments of production, owners, tenants and labourers, next demand attention. The field of enquiry here is wide, embracing as it does everything that affects the economic value of the labour of these three classes as applied to the land. The chief matters for consideration are noticed in the following paragraphs.

390. *Labourers and village menials.*—The extent to which hired labour is employed, its cost and any forms of agricultural partnership which exist should be noticed. The strength or weakeness of the tie which binds together the landowners and the village artisans and menials, and the degree in which the former depend on the latter for assistance in cultivating the soil, should not be overlooked. It has been suggested that the gradual substitution of contract for status, and competition for custom, in the relations of these two classes has involved a large increase in the cost of production to landlords.

391. *Tenants.*—There are parts of the province where the tenants are masters of the situation, where they throw up cultivation with a light heart in one village being sure of a welcome elsewhere; there are other parts where they will accept very hard terms rather than give up their holdings. These differences may be very imperfectly reflected in the rent statistics, but they cannot be neglected in actual assessment.

392. *Indian rural society not homogeneous.*—One of the most striking features of Indian rural society is its extreme want of uniformity. Differences of race and inherited disposition as wide as those which sever the Celt from the Saxon are found in neighbouring villages, or even in two sub-divisions, of a single estate. These are complicated by the influences brought to bear on character by rival forms of religion, the lines of division in which often cross those which separate tribe from tribe. As a husbandman tilling his own fields, or as a landlord dealing with tenants and dependants, an average Jat is very unlike an average Rajput, and differences less in degree, but still important, often exist between Hindu Jats and Muhammadan Jats, or Hindu Rajputs and Muhammadan Rajputs. These two tribes are referred to because of their numerical importance, and not because they always and everywhere represent the extremes of agricultural efficiency and inefficiency.

393. *Tribal composition of village population.*—The tribal composition of the rural population as a whole can be gathered from the ninth, and that of the part of it which consists of landowners from the sixth, of the village assessment circle and *tahsil* revenue registers. If these matters are not set out in sufficient detail for an assessing officer's purposes, it is easy during settlement to have all needful particulars entered for one year in the case of each estate.[1] In an assessment report the

[1]The tribal details for each village as a whole can be compiled from the tribal registers drawn up at the last census.

extent of the possessions of each of the principal tribes and the amount of revenue which it pays can be conveniently shown in percentages of the whole cultivated area and of the total assessment.

394. *Ancestral habits and character.*—A settlement of the land revenue which claimed for the State the full one-fourth net assets share everywhere would involve differential rates for the assessment of villages belonging to good and bad agricultural tribes. But, apart from this, prudence forbids any attempt at an absolute equality of treatment. Habits and customs unfavourable to good husbandry which have grown up in the course of generations will not be changed in a day. It is wise to fix a demand in every case high enough to discourage slovenly farming and train the people gradually to habits of steady industry. Undue leniency, by fostering sloth and extravagance, may ruin a community as surely as overassessment. It increases to a harmful degree the sums which can be borrowed on the security of the land, and large credit is baneful in the case of thriftless people engaged in the very precarious trade of farming. But, on the other hand, an assessment which hard working Arains can pay without difficulty may drive Rajputs to crime or force them to sell or mortgage their land. Existing inequalities should be reduced where practicable, but their sudden removal is impossible. There may be here and there incorrigible communities, or even tribes, which sooner or later must lose their ownership of the soil. But even in their case it is better for the State that extinction of ancient rights should be a gradual process manifestly the outcome not of a harsh revenue administration, but of the ill deserts of the right-holders.

395. *Incidence of rural population on cultivated area.*—There have been seven general enumerations of the people of the Punjab in 1854, 1868, 1881, 1891, 1901, 1911 and 1921. In calculating the incidence of the population on the cultivated area, it is well to exclude the people living in towns. Any cultivated lands belonging to the towns can also be deducted if they are usually tilled by resident cultivators. It is worthwhile to notice the incidence on the average area of crops as well as on the cultivated area. Until the rural population has reached the number that can be profitably employed on the cultivation of the soil and on the trades subsidiary to agriculture, such as those of the village blacksmith or grain dealer, its steady growth is a healthy sign. But when that limit has been attained, and all the land worth cultivating has been brought under the plough any further increase is an evil unless improved means or methods of production can be introduced. A Settlement Officer may get a rough notion of the population that can be economically occupied in farming in any particular tract by imagining an agricultural partnership formed by, say, four families consisting of twenty persons, young and old and considering what amount of land would fully employ the energies of the working members of the association and support them and the other members dependent upon them. The partnership should be representative of the chief classes living off the land and should consist in the average proportions of persons too young or too old to work, women and children taking only a minor share in farm labour, and adult males. The last, who may be described as the working partners, will fall into three classes, some contributing only the labour of their hands, others

bringing oxen as well into the common stock and others supplying land and cattle in addition to their own labour. The share of these three classes in the produce will, of course, be very different.[1] Suppose the calculation shows that the members of an association of twenty persons can till 18 acres of land distributed into irrigated and unirrigated in the proportions usual in the tract, and that the crops they raise are sufficient to support all the members of the partnership and to pay the land revenue and cesses, it may be concluded that a population of 576 to the square mile of cultivation would not be excessive. Some addition would have to be made to this figure on account of persons engaged in trades which supply the everyday wants of the agricultural population.

396. *Size of holdings.*—Further light is thrown on the pressure of the population on the soil by the figures in the sixth of the statements contained in the village and assessment circle revenue registers which show the number of holdings and owners, the total area and the cultivated area. It is, however, more important to know the normal amount of land owned by each household than the size of a normal holding or the number of acres usually possessed by individual owners. It is, therefore, worthwhile to enquire at village inspections how far these three things agree. Some joint holdings will be found the shareholders in which are heads of different families, and a certain number of the proprietors will be children. But on the other hand an old man with married sons continues till his death to be recorded as owner of the joint family property. It will probably be found that there is no great difference between the number of holdings and the number of owners. As time goes on the tendency to divide joint holdings grows and it is strongest in the case of the most industrious tribes. This is a point to be remembered in comparing the average size of holdings at two settlements if the first was made before the present plan of recording the number of owners as well as the number of holdings was introduced.

397. *Statistics must be examined village by village.*—No safe conclusions can be reached by deducing general averages from the figures referred to above. If a Settlement Officer wishes to obtain a clear understanding of the existence or extent of over-population, he must be willing to study the question village by village during his inspections. It will soon become apparent that in order to get true ideas on the subject some holdings must be altogether excluded and other adjustments must be made. Thus the general average for an estate may be greatly affected by the presence of a few very big holdings. Or the holdings may be large, but the land included in them may be mostly in the hands of occupancy tenants paying low cash rents which leave only a trifling margin of profit to the landlords after the revenue and cesses have been paid. On the other hand proprietors with small holdings may own land elsewhere, or have occupancy rights in other fields, or they may eke out their resources by cultivating as tenants-at-will. When he has examined the subject village by village, a Settlement Officer can say with some confidence what figures must be eliminated from the circle totals before they can be accepted as evidence that normal holdings have or have not sunk below the level compatible with the prosperity of the great body of peasant owners.

[1] An interesting account of actual partnerships of this sort will be found in paragraphs 276—281 of Mr. Ibbetson's Settlement Report of Karnal.

398. *Exclusion of certain classes of holdings.*—All holdings consisting of an entire estate may be struck out without hesitation. How far it is wise to go in excluding other very large holdings must depend on local circumstances. Holdings which have been bought or are held in usufructuary mortgage by money-lenders may properly be cut out and also small plots which the landowners have given to religious persons and village servants. Wells and threshing floors which are the joint property of several shareholders, whose cultivated lands are held in separate ownership, should not be treated as independent holdings for the present purpose, though they appear as such in the *jamabandi*. The area of the village common land must be included. After all these adjustments have been made the area of the remaining holdings may be reduced by the amount of land held by occupancy tenants paying low cash rents.

399. *Tenants' holdings.*—When calculating the size of the holdings of occupancy tenants and tenants-at-will, it is a good plan to show separately the holdings of tenants under each class who are also landowners. In this way it is possible to get a better idea of the condition under which ordinary tenants live and of the extent to which landowners whose holdings are too small to provide a comfortable livelihood for their families, can find additional means of support.

400. *Effect of over-population on assessment.*—The fact that the people of any tract by multiplying too fast have condemned themselves to a low standard of living and the constant pressure of debt is no reason for reducing an assessment. Any relief given in this way would be small, and would probably soon be swallowed up by a further increase of numbers. Nor, where the existing assessment has become much below the one-fourth assets standard, can over-population fairly be put forward as an argument against a moderate increase, which will not make individual landowners much worse off than they were before and may check to some extent the tendencies from which the evil has sprung. But a practical man will see that he cannot treat a congested tract exactly like one more happily situated, and that he will have to forego in the one part of the increase which he would take without misgiving in the other. He will also remember that the same cause which depresses the condition of the landowners has a tendency to force up rents and make the one-fourth assets standard very severe.

401. *Decline of population.*—The decline of the rural population in any part of the country and its failure to maintain cultivation at its old level are commonly traceable to causes which a Settlement Officer cannot remove or control. All he can do is to adjust the amount of the assessment and adapt its form to existing circumstances, to point out the causes of decay and suggest any remedial measures which seem feasible. A bad climate is generally the root of the mischief in these cases, and the effect of climate on the health and energy of the people is a point which no asseesing officer can afford to neglect.

402. *Extensive transfers a sign of embarrassment.*—The sources from which information as to the extent of sales and mortgages can be drawn have been described, but the bearing of alienations on assessment has still to be considered. Broadly speaking, a large amount of land transfer,

especially when the purchasers and mortgagees are money-lenders, is a sign of embarrassment among the land-owning classes, and the rapid growth of alienations in any tract is an unhealthy symptom.

403. *Subject to be examined village by village.*—But it behoves a Settlement Officer to be on his guard against exaggeration. His daily work makes him appreciate keenly the difficulties with which small farmers have to contend, his ears are besieged with interested statements on the subject, and it is not wonderful if sympathy should sometimes weigh down the scale unduly in the direction of pessimism. Sound conclusions as to the real extent and causes of embarrassment can only be reached by studying the figures not only in the mass but in detail, village by village. With the list of sales and existing mortgages before him, an officer inspecting an estate should find it comparatively easy to trace the causes from which the transfers have sprung. Indeed an intelligent Indian subordinate can do much of this work for him.

404. *A considerable amount of transfer not a sign of general embarrassment.*—A small proportion of the sales may be found to be fictitious. For example, a gift to a favoured relation may be clothed in this garb to defeat the claims of the legal heirs. A considerable amount of mortgage will always exist where land is held on a moderate assessment by bodies of peasant proprietors with free right of transfer.[1] A community may be in a healthy state as a whole, though it includes a number of foolish people to whom credit is a snare, and unfortunate people who have fallen into debt. Farming is a very risky trade, and the most prudent peasant owner may have sudden emergencies to meet and be unable to borrow without making a temporary alienation. Some mortgages have no connexion with poverty. Men who take service away from their homes often mortgage their holdings rather than leave them in the hands of unscrupulous relations or tenants, and occasionally transfers are made merely to raise money for investment in land elsewhere. But it would be idle to deny that the bulk of the mortgages effected spring from the pressure of debt, and that in the case of very many of them redemption is hopeless. A large number of sales to strangers is usually a worse symptom than frequent mortgages. But it has been noticed that Rajput communities and other proud tribes will cling to the name of owner long after the substance has departed and the land is pledged for a sum that can never be repaid. It may be found when the figures are analysed that the general effect is heightened by an excessive amount of transfer in particular estates or localities or in the villages belonging to a particular tribe.

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[1]The situation has been much changed by the passing of the Punjab Land Alienation Act, XIII of 1900. It is now not uncommon to find that the area redeemed in a given tract since the introduction of the Act has exceeded the fresh area mortgaged, though, owing to the increased value of land, the total mortgage debt may at the same time have increased. It is due to the same cause that the mortgagor is now often in a position to force redemption of a portion of the mortgaged land without payment of any portion of the mortgaged debt, the latter remaining as fully secured as it was originally owing to the enhanced value of the remainder of the lands. The Act has greatly strengthened the economic position of the landowner, a process which will doubtless be further assisted by the wide development of the co-operative credit societies.

405. *Collateral mortgages and unsecured debt.*—It is not always safe to assume that the absence of sales and usufructuary mortgages means freedom from debt. Where the soil is rich and the harvests secure, such an inference may be safely drawn. But there are tracts where the money-lender is slow to undertake the risks involved in usufructuary mortgage by which he would become responsible for the payment of the land revenue. He looks to the debtor's cattle or crops for repayment, and poverty stricken landowners are found whose fields are subject to no legal burden, but who hand over regularly the bulk of their crops to the village banker, and live on what he will advance to them until the next harvest. Statistics of sales and usufructuary mortgages should therefore be supplemented by the collection of information as to collateral mortgages and the amount of unsecured debt. In heavily mortgaged tracts the extent of embarrassment is only disclosed when the floating debt from which fresh transfers must arise has been taken into account.

406. *Effect of general indebtedness on assessment.*—When a Settlement Officer has got a clear idea of the extent and causes of indebtedness, he has to ask himself whether it indicates any general lack of prosperity, or is merely the outcome of individual folly or misfortune. If the community as a whole is in a depressed condition he must consider whether there is anything in the pitch or form of the existing assessment or in the system under which it has been collected which has produced or aggravated the evil. If he is convinced that the assessment is in fault, he must lower its amount or change its form. But where he finds that money is freely lent on the security of the land, he will be slow to assume that an estate is overassessed. If the method of collection has been bad, it is his duty to point out the errors that have occurred, so that they may be avoided in future. Where debt is in no wise due to over-assessment, it may still have to be considered as an obstacle in the way of taking the full enhancement that might otherwise be claimed. The policy dictated by prudence and humanity in such a case is substantially the same as that explained in discussing the bearing on assessment of two evils from which debt often springs, hereditary want of thrift and over-population.

407. *Differential assessment of alienated lands.*—In the foregoing paragraphs cases have been considered in which the character or the poverty of the proprieters impels a Settlement Officer to fix the demand below the amount due under the one-fourth net assets rate. It is a drawback of our village system of assessment that it makes it difficult to discriminate between the struggling peasant owner and the well-to-do landlord when they are found, as often happens, in the same estate. The free right of transfer, which proprietors for many years enjoyed, has greatly affected the constitution of many village communities by introducing into them as owners and mortgagors persons who are aliens to the original brotherhood, and often non-resident money-lenders. It is sometimes hard to decide whether the demand should be fixed mainly with reference to the circumstances of the majority of the proprietors who represent the old land owning stock, but have lost their hold on a considerable part of the land, or with reference to those of a few well-to-do transferees. These difficulties and the loss to the revenue which the present system entails have led to suggestions from time to time for an assessment frankly differential in its

character. One form of differential assessment suggested was to fix for each estate an assessment as near to half net assets as possible, and to distribute this assessment over the holdings, granting freely to members of the original proprietary body and to true agriculturists special remission of part of the full revenue demand. The form of the assessment would thus become very similar to that in force in some villages on the North-West Frontier where deductions are allowed to the landowners as " border remissions ". It is urged that, when it is deemed prudent to pitch the demand below the standard out of regard for the difficulties of the old proprietary body, there is no reason why further loss should be incurred by granting the same indulgence to transferees. An object which bulked largely in the eyes of most advocates of differential assessments was the check on alienations to money-lenders which it has been supposed they would exercise. Accordingly the scheme usually put forward confined the imposition of the full assessment to lands alienated by sale or usufructuary mortgage to persons of this class. Some would limit the proposal to future transfers, others would apply it at a revision of the assessment in the case of all transfers which had taken place during the currency of the expiring settlement. The subject was a good deal discussed in the Punjab thirty-five years ago and the arguments on both sides will be found in the papers noted below.[1] The decision of the Lieutenant-Governor of the day, Sir Dennis Fitzpatrick, was unfavourable to any plan of the sort. He held that the proposal was in no way unjust or unfair if it was limited to future transfers, but he thought it unwise to impose an enhanced assessment in the case of transferees who were themselves agriculturists, as they would probably be for the most part small farmers seeking, perhaps with borrowed money, to make some small addition to their own petty holdings. If the scheme was adopted at all, it should be confined to future transfers to money-lenders, but, even so, the policy proposed was a very doubtful one. It might be confidently asserted that it would not check alienations to any degree worth mentioning, while it would certainly lessen the amount which an embarrassed peasant could get for his land. The medicine in short would not mitigate the disease, while it might produce unforeseen, and very possibly harmful, consequences. At the same time the scheme, when limited to future transfers to non-agriculturists, would yield little additional revenue to the State. A few years later statutory restrictions on alienations to money-lenders were imposed, and one of the arguments in favour of the plan of differential assessments fell to the ground.

408. *How far discrimination in assessment is just and expedient.*— But whatever may be thought of the merits of the particular proposals which Sir Dennis Fitzpatrick rejected, few will contend that well-to-do rent-receiving landowners, whether they be money-lenders or not, are entitled to the concessions which policy and humanity often demand in the case of struggling peasant farmers. How far discrimination can wisely be carried may well be a subject of dispute, but equality of assessment is under existing circumstances impracticable. Where the holdings of the two classes are found in a single estate, it may be necessary to treat them exactly alike, but that is a matter of expediency, and not of justice.

[1] Revenue Proceedings of the Punjab Government Nos. 1 and 2 of August, 1894 and Nos. 22—44 of December, 1895.

NOTE C.

Written opinion of Sir Edward Maclagan, K.C.S.I., K.C.I.E.

Preliminary.

I DO not feel competent after so many years' absence from the Province to give detailed replies to all the enquiries in the Questionnaire, and I have written my observations below in a self-contained form, but I have noted in the margin the numbers of such paragraphs in the Questionnaire as seem to be replied to (or evaded as the case may be) in the adjoining portion of my observations.

Land Revenue distinct from Income-tax.

2. I would in the first place premise that, although it may be possible to introduce into the Land Revenue some of the principles of the Income-tax, it will be necessary especially in a country of small holders like the Punjab, to keep the two methods of taxation quite separate. They are, I believe, kept separate in all foreign countries in which they are both in force, and the land revenue is looked on as a 'real' tax, (i.e., a tax on the land) whereas the income-tax is a 'personal' tax (i.e., a tax on the individual). In India moreover the Land Revenue is a heritage of immemorial antiquity and there is, I presume, no intention of turning it, wholly or partly, into an Income-tax.

Objections to the calculation of actual net assets of each holding.

3. Land Revenue is assessed ultimately on individual holdings; but it is not based on data procured separately for each holding. Figures for area, soil and cropping can, in one form or another, be ascertained for a holding, but the calculations of outturn, price and rental rates, on which the assessment is based, are calculations made for the assessment circle or village and not for the holding. The revenue, therefore, which is ultimately demanded from each holding does not necessarily bear an established relation to the actual net assets of the holding. What are known in Europe as the 'cadastral net assets' do not pretend to be identical with the actual net assets and are in fact generally much below the actual: but they establish with fair accuracy the comparative value of various holdings and in India they have always been held sufficiently accurate in themselves to form a guide to such matters as the valuation of land for judicial purposes.

A landlord's rent, whether in cash or in kind, represents, also, a mere approximation and is not based on the tenant's actual ascertained net income at each harvest. It would *prima facie* be rash for the State to try and do what the landlord, living as a

rule near the spot with easy access to information, does not attempt to do. Any effort to work out the actual net assets by holdings would be extraordinarily expensive to the State and the results would seldom be fully reliable, so that I think we must give up the idea of ascertaining the actual assets of holdings and be content with the approximation provided by the revenue rates.

These rates are, it is true, misleading when applied to many of the small uneconomic holdings because they are based on the rental which it assumed they would pay if part of an ordinary economic holding. When the cost of production and subsistence bears an excessive proportion to the assets, the revenue assessed may exceed the prescribed proportion of the net assets and become oppressive. Of course the real remedy for this is the introduction of steps to secure the elimination of the uneconomic holding by changes in the law of succession and other means. If pending the introduction of such steps it is thought advisable to deal specially with small holdings, I think that for practical purposes any action taken should be based not on expensive enquiries and calculations of the net income of individual holdings, but the revenue assessed which is already to hand.

Questions 15, 31.

Even in small uneconomic holdings.

4. This revenue can best be assessed on the net assets as now defined. It would no doubt be possible to work out rates based on calculations of the value of the produce, with deductions for the cost of cultivation and the cost of subsistence, as is done wholly or partially in several other provinces; but wherever we have (as we have in most Punjab areas) a sufficient proportion of rented land to give us a fair idea of the rental value, the rental value gives us a far more reliable estimate of the incomes to which we can suitably proportion our land revenue.

Question 15.

Definition of net assets.

5. While, however, adhering to the system of rates already established, we may quite suitably take special steps to deal with one class of hardship which presses more especially on small holdings,—viz. the fluctuations from harvest to harvest of area, outturn and price. For fixed assessments we have the prescribed rules for suspensions and remissions and though these were in my time considered fairly elastic they may possibly need some improvements in detail. And there are possibly areas in which a fluctuating may suitably be substituted for a fixed assessment. In view of the fact that a fluctuating assessment put opportunities of

Question 14.

Fluctuation in assessments.

Question 1.

harassment in the way of the lower officials and deprives the landowner of the advantage of certainty in his expenditure, such assessments have generally on their first introduction been unpopular and it would, I think, be out of the question to contemplate their extension to the whole province or any large proportion of it.

In one respect I think there is probably room for extending fluctuation of assessment in a way that would be of benefit to all, but especially to small holdings. The provisions for dealing with fluctuation, though probably suitable as regard changes in the area and the class of cropping, do not, I think, take sufficiently into account the fluctuations in the price of produce. These were less noticeable twenty or thirty years ago than they recently have been, and it is likely that our rules may need modification to take such fluctuations into account more fully. Future assessments, whether fixed or fluctuating, might be made subject to a sliding scale to meet fluctuations in prices, something on the lines of the scheme adopted by Lyallpur, though possibly without the impediment of maximum rates.

Fluctuations in assessment.

6. I do not think that in any case we should adopt kind rates. Even a kind rate must generally be only an approximation to a share in the net income, and though I have never myself had experience of the working of kind rates, I have always, in reading Revenue literature, been much struck by the almost complete unanimity with which those who have experience of them, condemn them. In whatever form they may be taken I doubt if there is any part of the Punjab where they would be popular.

Question 2.

Assessment in kind.

7. If we propose to provide relief for small uneconomic holdings I think that in defining such a holding we should for practical purposes neglect the area of the holding or the number of shareholders in its ownership. The best approximation we can get to a suitable definition is obtained by following the revenue assessment and deciding to treat as open to relief all holdings assessed at less than a certain determined figure. The differentiation will depend ultimately on an assumed net assets figure for the holding and will accordingly have some relation to the peasant's ability to pay.

Definition of a small holding.

Question 5·7.

8. By defining small holdings in some such way we make it easier and simpler to extend to them relief from assessment if such relief is held advisable. But is it advisable ?

In the first place it must be remembered that once we begin to exempt small holdings from land revenue, we abandon *pro tanto* the theory on which land revenue is based,—viz., that it is a 'real' tax on the produce of the land, independently of the amount of income accruing from it to individuals. Relief is, no doubt, already given in practice to certain individuals, but this chiefly in return for services rendered, etc. And differentiation is also, no doubt, already allowed in the demand in view of the status and character of the assessees, but this form of relief is justified mainly by the reaction which the status and character of cultivators bears on the produce of the soil. It is clear that by giving relief to small holders on the ground of the smallness of the holding we are altering altogether the nature of the assessment.

Main reasons against the exemption of small holdings from land revenue.

Question 12.

The chief reason moreover for exempting small incomes from income-tax does not apply in the case of small holdings paying land revenue. Certain exemptions given to small incomes from income-tax are in many countries given with a view to producing certain economic results; but exemptions from income-tax, speaking generally, are adopted less as a matter of principle than in order to avoid the appalling harassment and expense which the necessary enquiries into small incomes would entail. In the case of land revenue, on the other hand, the small holdings are dealt with along with the rest; the necessary data have in any case to be provided and the assessment of small holdings entails no extra harassment or expense.

There are moreover very serious practical difficulties to be faced in exempting small holdings such as the treatment of non-cultivating landlords, mortgagees, joint families, partitions, fictitious mortgages and gifts, subsidiary occupations, etc.; the loss of revenue to Government; and above all the encouragement to partition and fragmentation. Methods may no doubt be devised for meeting, more or less efficiently, some of these difficulties, but anything done in this direction must necessarily add considerably to the work and to the temptations of the *patwari* and would entail further complexity in a class of work which it is essential to keep simple. As a Frenchman puts it, 'La simplicité est ledernier terme de l'art, en finances comme pour le reste.' As regards fragmentation the legislature will no doubt before long take steps to deal with this, and any such steps will be seriously hampered by the contrary influence of exemption from fiscal burdens. Indeed the remedy proposed by at least one of the European economists for preventing fragmentation is to over-assess the smaller holdings.

Questions 7 (6), 9, 13, 25.

Questions 10, 11, 32.

9. I do not know how far exemption has been tried in other countries, but I find that in 1898 a system of exemption of the kind now under consideration was introduced in France. For holdings under 10 francs total exemption was granted; for holdings of 10—15 francs ¾ths exemption: 15—20 francs ½: and 20—25 francs ¼. The measure was at once denounced by an eminent economist as one of 'vile courtesanerie electorale'[1] and by another it was quoted as an example of the legislative encouragement of proletariat holdings.[2] A manual published in 1902 while reproducing a number of complicated rules for carrying out the scheme, pointed out that the new regulations 'portent une attente profonde au caractere de realite de l'impot foncier.'[3] One is not surprised to learn that the system thus introduced had not very long life, and on 31st December, 1921, the legislature rescinded the whole scheme.[4]

French experiment a failure.

10. If in spite of the above objections, it is felt that the hardship caused by the assessment of small holdings should be met, not by steps to eliminate small holdings, but by exemption from assessment, I should confine the exemption to the smallest possible class of assessee. If, for instance, exemption was given to all holdings paying less than, say, one rupee of revenue, or at most five rupees, we should meet a considerable number of 'hard cases' and should do so with the minimum of evil consequences and complications. Any further graduations seem to me to be unnecessary, but it may be found advisable to make up for the revenues lost on these small holdings by rendering the larger holders no longer immune from income-tax. I have not figures by me to enable me to judge of the advisability of such a course, but it may be noted that in several European countries (Prussia for instance and Austria) the larger landed properties are, or recently were, liable to income-tax in addition to land revenue.

If exemption found necessary it should be reduced to a minimum.

Questions 6, 8, 18.

Question 34.

Questions 19, 20, 26, 28.

11. The question has been raised whether changes in the assessment, which may lead to increased demands from some or all of the landholders, can be introduced during the term of the settlement contract for a district. It has

Questions 34, 35.

The settlement contract.

[1] See Leroy Beaulieu; Traité de la science des finances. 6th Edition, 1899, i. page 403.

[2] M. Souchon in Rapport présenté au Congrès Internationale de la Propriété Foncière, 1901.

[3] E. Dessart, Traité de l'impot foncièr, Paris. Fragine 1902, paragraph 837.

[4] Sauzede: Traité de la contribution foncière, 1926. The latest manual I have seen (Prieur: Code de l'impot foncièr, 1924) has no mention of it. I do not know the precise reasons for the decision of 1921.

hitherto been held that such a course is impossible and under bureaucratic government it was necessary to adhere strictly to contract. But in a popular government where the landholders' interest is well represented, it seems to me to be open to the Assembly to introduce by legislation such changes as it thinks fit in the period over which the assessment contract extends. Whether the contract should or should not be broken in this way is a question for the legislature to decide in each case, but the legislature seems to me to have a legal right to break the contract if it so desires.

(Sd.) E. D. MACLAGAN.

Written opinion of Sir Geoffrey de Montmorency, G.C.I.E., K.C.S.I., K.C.V.O., C.B.E.

1. The terms of reference give the impression of proceeding on the assumption that there is a proved and inherent virtue in the principles of income-tax. This is by no means the case. Income-tax in any form is a comparatively new form of taxation; and even in England our grandfathers would marvel at the place it occupies in the British financial system to-day. Its so-called principles, such as progressive enhancement of rate, supercharges, etc., are newer still: and it is not until this generation has passed away that it will be possible to gauge whether the tax was sound as a system or what its precise effect has been in the history of state taxation and national economics. It is by no means universal in the West: and certain modern civilized states have never adopted it in its English form or applied its principles: in particular the theory that a man holding a minimum uneconomic position should not be taxed at all is one which few modern states hold: in the greater part of Europe if a man lies outside the limit of direct taxation, he makes a contribution to the State through indirect taxation and/or (and in most cases) by universal compulsory military or other service. This is the case in Germany and France: in England with high import duties on the cheaper classes of food and local rates affecting all tenants, even tenants of rooms, through the rents, the man below the minimum income-tax limit does in every case make a contribution to the State. If the small holder in the Punjab, where circumstances are very different, were to be exempted from payment of land revenue he would cease to make any contribution in any form (except perhaps in an infinitesimal way through the salt tax to the Central Government) to the State towards the cost of defence, administration or beneficent activity. This is wrong. If in democratic institutions, no taxation without representation is a sound slogan, its converse no representation without taxation is equally sound. In countries where there is universal adult franchise, the electors do, in practice, all make some contribution to the State in one of the ways above indicated. The lowest class of land revenue payer in the Punjab might with some justification demand a revision of the franchise and a vote at an early date, but that he should demand to have a vote and make no contribution at all to the State would be without precedent in Europe, at any rate from medieval times until the present day.

2. Once at least in the Questionnaire land revenue is referred to as a tax (paragraph 15). It is, however, very doubtful if land revenue is a tax at all in the real sense of the word in modern times. There appears to be some incongruity in seeking to apply a specialized modern form of taxation of profits to

something, which is a historical[1] survival of a very different character. The principles of income-tax are foreign and the principles of land revenue indigenous to India : and the suggestion under consideration takes a peculiar course at this time in India, that of trying to graft a *bideshi* system on to a *swadeshi* product. Socialist critics in the west dub income-tax as a specially suitable form of taxation for England with its capitalistic outlook in commerce and industry and enormous joint stock investments in trade and manufacturing enterprises, which can hardly be taxed adequately in any other way. If there is a germ of truth in this view, the system must be quite inappropriate in general application to the Punjab, where completely different conditions prevail.

The Questionnaire mentions the contractual nature of land revenue assessments—a very honourable state for both the parties concerned. The faithful adherence of the Government to the long term contracts of Settlements has undoubtedly entailed a loss of revenue to the State which might have accrued from the adoption of different methods. On the other hand it has fostered a spirit of confidence in the administration on the side of the people and a feeling of certainty which has conduced to rural prosperity and development. In addition to this gain, the definite long term limits to revenue expectations has probably deterred Government from undertaking speculative programmes and safeguarded the province from disappointments and costly mistakes.

3. It is, I hope, outside even the bounds of conjecture that the Legislature of the Punjab will ever fall into the error of passing enactments to terminate or invalidate existing contracts. Any step of this nature would inevitably lead to agitation to terminate contracts of every kind as a matter of course with deplorable results. An alternative, if early introduction of the principles is desired, is the securing of the consent of all the proprietors of all the estates in the Punjab. A large and costly machinery would be needed to secure and register such an agreement : and the improbability of agreement by those whose land revenue payments fall in the higher categories, would be likely to render this costly experiment nugatory in result. The remaining alternative is to pass a law that as the settlement of each district falls in, in the next assessment of the estates in that district arrangements will be made that in future the " have-littels " of that district shall pay nothing or less than before and the " have-mores " a good deal more.

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[1]In early times land revenue was a share in the gross produce and had no connexion with profits.

4. The political aspect of such action is really outside the scope of my experience ; but I observe that in the present state of the franchise its pursuit is not likely to be an attractive proposition for any political party ; for while in the process the support of a good many voters in the higher classes of revenue payers is likely to be lost, the only gain will be the problematical goodwill of those who have no votes at present : and inevitably some voters will be degraded from the position of having votes to that of being without the qualification.

The social reactions of excluding certain holdings from payment of land revenue appear to merit close consideration. They may well prove to be serious. The payment of land revenue in the Punjab has hitherto conveyed the cachet of a certain position in the rural life of the Province—that of a *biswedar*, a member of the proprietary body of a village, one of the class of landed gentry and yeomen of the Punjab, an owner of a hereditament, the title deeds of which are maintained by Government and the extent of which is ascertainable in public documents, a right holder in the common land and site of the village, a lord of the menials, a dispenser of the village *malba*, a voice in the village *panchayat*.

5. To take only one of these items—right holdership in the common land. It often happens that when that land comes under partition, owing to irrigation or land shortage or other cause, the method adopted for its division among the proprietors in the village estate—and the law allows the proprietors to choose the method—is in shares bearing relation to the proportion of the land revenue of the estate paid by each proprietor. The " small or uneconomic " landholder would in such circumstances find himself in a curious position. A kindly Government in reducing or absolving his land revenue obligation would incidentally have injured or extinguished his right to participate in his due share of the common lands. This point is not likely to escape the shrewd Punjab peasant.

6. Settlements are made with the proprietors of an estate : and however lowly may be the share of a small proprietor in a village in the obligation of the assessment, it is questionable whether a release from that obligation, except in the form of a *muafi* for honourable service rendered, will not be envisaged by the rustic, as he turns the proposition over in a conservative mind, as endangering his position in the body politic of the village and relegating him to the position of those in the village outside the revenue *parcha* status—the tenants, the village artisans and the menials. In part of the Eastern Punjab under fixed land revenue, even fluctuating assessments are not regarded with favour on this same analogy. *Rajputs*, *Jats* and *Gujars*, who were offered a lighter fluctuating assessment in place of a heavier fixed demand working oppressively, have been known to

refuse the former, because they said that if they accepted a fluctuating assessment their clansmen in the United Provinces and Rajputana would no longer regard them as *pakka biswedars* and would refuse to give their daughters in marriage to their sons. There is no question, I think, but that a change in the direction suggested will be considered to affect *izzat* in the present state of Punjab society. Even more serious is the risk that some may apprehend that it may in the long run also affect security of tenure ; and who is wise enough to say that in the whirlpool of time such an apprehension is fantastic ? Certainly experience shows that in periods of great upheavals and excitement less respect is likely to be paid to the ownership of land which contributes nothing to the State : and in such circumstances the origin or justification of a property privilege is forgotten in face of the fact of the vulnerability of its existing situation. It is well known that almost the commonest expedient for the restoration of finances in Indian States is a scrutiny of all *khalsa* holdings and reimposition upon them of State dues with an enhancement on account of past exemption. The alternative to acceptance of reimposition is in such case usually confiscation. If, as in the case of many privileges, the status of a land revenue payer costs money to maintain, this fact in no way detracts from the value attaching to the privilege. There is also some danger that in passing a law not affecting existing contracts, but laying down a completely new method of relation and renewal between former contracting parties, the action of the administration may be regarded as a breach of a right established by long custom to have the contract renewed not necessarily at pre-existing rates, but in the pre-existing form.

7. So much for the points about an untaxable minimum and the contractual difficulty : we are asked to consider the question of an assessment every year, or every harvest, on the estimate of the net assets for that season of every land revenue payer, in which the assessment of the individual should be on a graduated scale increasing with the amount of the assets and balanced against excessive loss to the State in the lower grades by supercharges in the higher.

8. The object as expressed in the terms of reference is to give relief to the small holders. This is a misleading expression because clearly some small holders, such as the tobacco growers at Hazro, have a much more satisfactory permanent income than the holders of considerable areas of *barani* lands in one of the *barani* areas of Hissar. It would give very unequal results, as notoriously fertile submontane districts, such as the Jullundur-Hoshiarpur Doab—the garden of the Punjab—would make little contribution to revenue owing to the smallness of their average holding, while precarious tracts with a larger average holding would be treated far more harshly. The small holding is not

'static'. Death, the commonest incident of human affairs, may at once change its character by initiating its devolution into other hands. It may pass to numerous heirs and be even farther comminuted : or it may pass only to add some further area to an already considerable estate. Nor is this difficulty overcome by shifting the ground, as the Questionnaire does, to the uneconomic holding.

In theory and practice hitherto a rate of assessment has been attached to a class of soil or a definite collection of fields in an estate grouped together on grounds of strength or weakness of quality in production. This has the merit that the label once attached remains fixed to the land during the whole term of settlement. The person, to whom a poor plot with a light rate of assessment passes by inheritance or alienations, succeeds also to the light rate of assessment automatically : no change is made in the rate during the duration of the settlement except owing to (1) changes by diluvion and (2) diminution in fertility due to some exceptional cause beyond the control of the owner. A special machinery exists in riverain areas to deal with changes owing to diluvion or alluvion : and the other class of case is so rare that no special machinery is needed to cope with it : but if under the scheme now under consideration, on every partition alienation or demise, land had to be pegged down or up into a different grade for assessment, an unjustifiable increase would at once take place in the already very considerable complications and work of land and revenue records. The land revenue roll would never in such circumstances attain any approximation of correctness or finality: and the opportunities for error, corruption and chicanery would be unlimited. An uneconomic holding almost defies a fool-proof definition. In listing them great difficulties would be encountered : and the *patwaris* would reap a larger unearned increment than the prospective exemptees. I need hardly add that a man with an uneconomic holding in one village often owns land in other estates in the same or other districts.

9. Moreover the proposed system strikes at the root of a custom to which the proprietary body of an estate in an area under fixed assessment in the Punjab have always attached weight—the *bachh*, or distribution of the demand announced for the estate over the proprietary holdings. This process takes the form of raising the average rate for the estate of a class of land on the advice of the proprietors above the average rate on lands which they know to be specially productive and lowering below the average on other portions of the estate where they know adequater returns are hard to win—a very logical and reasonable device for adjusting burdens. The new system would in effect ignore the position of one of the contracting parties, who have

possessed over a long period a right to have a say as to how the total amount payable under the contract is to be distributed over their co-sharers, and seek to dictate to them, without regard to their experience and knowledge and past rights in the matter, an arbitrary distribution on principles never before applied.

10. Though the amount, which the Punjab Treasury derives from the comparatively new system of fluctuating assessment, is very considerable, the older and more widely spread system is that of fixed land revenue. I fancy that the latter affects more districts and more landowners than its newer rival. It is important therefore to see, whether the so-called income-tax principles, apart from the *bachh* difficulty above explained, could be grafted on to this old standing method. Before I pass on to this important point, I observe that the terms of reference and the Questionnaire seem to concentrate on " a yearly estimate of net assets for every revenue payer ", but if those interested in the question will study the English Income-tax law and rules thereunder, Schedule A and the ' Farmers Appeal rules ', they will find that the principles underlying the taxation of agricultural land are in many respects different from those applying to income from investments, trade and industry ; and that concentration on the latter has *pro tanto* vitiated the trend of the Questionnaire.

11. But to adhere to the brief set out in the terms of reference, the question that arises is can this sort of principle be applied to the areas under fixed assessment at all ? If not, must the fixed system, where in vogue, be changed into some form of fluctuation ? and if the latter course is taken, will the change be to the advantage of the province and its people ?

12. The answer to the first question is in the negative. I need not go into detail. The assessment is worked out for an assessment circle in which a number of villages or estates broadly homogeneous in many conditions are grouped. The circle rate is not based on the production of one harvest or the prices of the year before, but on what has been brought out by examining the recorded cropping of all the years of the expiring settlement and taking the average of a normal series of years, while the prices are a conjecture of the sort of fair average price likely to be obtained based on careful examination of recorded prices over a series of past years. The circle rate is applied to the estate and cross-checked by the net asset estimate for each estate. Various other factors come into consideration before the demand for the estate is finally fixed : and then at the last stage of all inside that estate the demand is divided over the individual holdings very largely as before explained on the advice of the proprietary body. In this way though in the end a demand is allocated to each holding, it clearly bears little relation to " the *yearly* estimate of

the assets of each revenue payer ". Yet if the fixed assessment is well devised, it is expected that it will ordinarily be paid with ease with the help of occasional suspensions and rare remissions *over a long series of years.* It is generally speaking much lighter in its incidence on the individual payer than the charge under the fluctuating system. It is far lighter than what the individual would pay under the latter in good years with good prices, while it is not heavy enough to burden him unduly in less favourable seasons. It has the merit of fixity, i.e., each proprietor knows the limit of his yearly obligation over the whole period of a settlement. It does not tax improvements made by him. It has also a curious flexibility. In the recent price slump years, it was far easier to deal fairly with the estates under fixed assessment by working the ordinary rules for suspension and remission of accumulated suspended revenue, than it was with the estates under fluctuating assessment, where almost any decision, however carefully considered and calculated, either placed an undue strain on the individual land revenue payer or on the finances of the State. The secret of this result perhaps rests in the fact that the fixed assessment aiming at equity over a long series of years has been based on the study of the vicissitudes of an estate over a long period in the past settlement and is well fitted to adjust itself to periods, when the downs are more prominent than the ups, while the fluctuating system, aiming more at fairly meeting the situation of a single harvest, loses its resilience when a series of uneconomically disastrous seasons supervene.

13. The answers to the first question are in the negative and to the second question in the affirmative ; in order to answer the third it will be necessary to enter into a brief comparison of the origin and character of the two systems, the fixed and the fluctuating. The Punjab Settlement Manual is so to speak the Gospel of Fixed Land Revenue principle and practice. It contains only brief reference to fluctuating assessments, which were of only slight importance and application at the time it was written : but it embodies the result of long experience in the Punjab and a still longer and earlier experience in the United Provinces of a fixed system built up on historical survivals by experts who had devoted their working lives to a study of its practice over many years. It was well suited to the proprietary system in the Punjab. It is a proved system, tested by time, which has secured both to the proprietors and the State a certain fixity, in the former case of the limit of Government demands and in the latter of expectation of revenue. In the system canal irrigation profits were usually catered for by a water advantage rate in addition to the fixed dry revenue rate over those portions of the estate which were recorded as canal irrigated. Sir James Wilson and Sir James

Douie, both experts in fixed land revenue and staunch admirers of the system, were forced into the adoption of fluctuation by the Great Canal projects and enormous increase in irrigated areas, which came into being in the closing years of the last century and the beginning of the present. Irrigation was for the first time applied to vast areas of Crown desert lands, previously unassessed, and to large *barani* estates where there were previously only tiny areas of cultivation in the midst of much waste land and peppercorn dry assessments. The land lying as desert in such areas had really no revenue value in its dry aspect to which a fixed assessment could be applied and thus the system of a fixed dry rate plus a water advantage rate seemed difficult to put in force. Moreover the Punjab at that time had little experience, except in a limited area at the tail of the Sirhind Canal, of the cropping resulting from the extension of canal water to areas with a very low rainfall. So in order to secure for the State some adequate return for the cost of application of canal irrigation to large and ever expanding areas and to safeguard the owner and cultivator against the possible vagaries in working of thousands of miles of new channels in intensely arid areas the revenue pundits were driven into the adoption of the seemingly more flexible fluctuating assessment system in the case of all Crown lands and in some cases for proprietary villages also. In the early days of the extension of canal irrigation this fluctuating system was also tempered by the use of holding to holding *Kharaba*, i.e., a remission of the whole or part of the land revenue (and water rates) was made on all fields, where at the time of the harvest crop inspection the crop appeared to be less than a four-*anna* or eight-*anna* crop respectively. This system proved demoralizing both to the assessee and the assessing staff. Later except in a very few areas, this system was changed and the pendulum, influenced no doubt by the high prices in war years and just after, swung violently in the opposite direction, no reduction or remission whatever being allowed, except where on inspection as a result of petition the crop in a field was found to be *nabud*, i.e., had totally failed to germinate. Thus in the course of a few years, the fluctuating assessment system assumed a rigidity, probably never contemplated by its introducers, which far exceeds in 'tightness' the fixity of the fixed system, mitigated as the latter is by lighter incidence, occasional suspensions and rare remissions. The fluctuating system broke down badly in the catastrophic fall in prices which occurred at the close of the second decade of this century. Consequently another experiment in fluctuation is now to be tried in the Lyallpur district characterized by the sliding price scale method. It is unnecessary to stress the novelty of this departure from established practice and it is idle to speculate as to how it will work and affect the people. We do not yet know and cannot tell !

14. The principal points that emerge are that the introduction of any system like that contained in the terms of reference would entail the abandonment of the fixed land revenue system where it exists and the adoption in its place of fluctuation. We should give up something that is of old standing, well tried out and perfected by experience in working over a long period of years — something that generally speaking works harmoniously; that is not perhaps as advantageous to the State as some other methods, but is certainly well understood by the people and is favourable to their prosperity and contentment. There is something also in the old system of fixity that makes for the preservation of the self-respect of the proprietary body of an estate and is favourable to the survival of features of the old ' village community ' structure.

15. In its place we should have to place or where it already exists to extend and perpetuate, a system of fluctuating assessment. The latter is comparatively new. Thirty odd years is too short a time to ' prove ' a system of this kind or get it into a form where it has some real equilibrium and static rules of practice. It lacks these qualities at present and is still in the stage of experiment succeeding experiment. Such experience of its working as exists is confined to areas with an intense degree of canal irrigation. That it could be applied with any degree of confidence to *barani* areas or to areas of mixed " well " and *barani* cultivation is open to great doubt. One of its invariable concomitants where it has been put into force has been to bring the low paid assessing agency into a close but somewhat unhappy relation with the individual revenue payer, which has not infrequently resulted in some prostitution of the morality of both. This dark side of the system is bound to develop if it is attempted to " make a yearly estimate of the net assets for every revenue payer "; and clearly its adoption would hasten the disappearance of the old Punjab system of a settlement with the proprietors of each estate and undermine such features of the village community system as survive. That the latter are worthy of preservation seems to me to be undoubted. I often think that the success of the co-operative credit system in the Punjab as compared with other provinces rests in a measure, not on any exceptional morality or ability in financial dealings on the part of the individual villager, but on the fact that the " village bank " in its composition and methods of administration preserves an affinity with the Punjab village community and embodies the virtues of the collective good sense, sound public opinion and an instinct for honesty and fair dealing, which is inherent in the strong village communities of the Punjab.

16. To sum up, my main propositions are as follows :—

(I) It must be remembered that land revenue is not, judged by its history or practice, a tax on an individual on the year's net profits from his agricultural lands and that it is essentially a growth of Indian conditions.

(II) Income-tax and its principles are of Western origin. The modern system is of comparatively recent growth. It is not in force in its English form in some civilized and go-ahead countries. It is not yet proved to be an ideal or universally suitable method of taxation : indeed it has often been called a tax on industry, foresight and thrift. It has manifest utility in countries where large profits are made from investments in Joint Stock concerns, trade and industry and where large classes of the less well-to-do, owing to complicated modern conditions and high standards of living, make considerable contributions to the State and State activity through indirect levies and local rates. Difficulty has always been felt in applying its general principles to profits from agricultural lands and a special system rather different from that visualized in the terms of reference and Questionnaire has been adopted in the United Kingdom and Ireland to meet this defect. It is not an universally accepted principle of this type of Western taxation that a manwith an income falling below a certain limit should make no contribution at all to the State.

(III) On account of these considerations it does not appear wise to attempt to graft a comparatively modern and western type of taxation, particularly suited only to certain complex conditions in highly developed countries, on to an old Indian system existing in a totally different situation.

(IV) The unit with the relief of which the terms of reference seem concerned is the small or uneconomic holding. It is, however, clear that the small holding is not invariably uneconomic. It is undeniable that the uneconomic holding is difficult to define or ascertain and that any attempt to do so would entail widespread inquisitional researches by a low paid staff, whose capacity and honesty would in some cases be likely to be unsatisfactory. Inheritance and alienation are continually changing the nature of holdings : and the process of

readjustment of demands to keep pace with these changes would not only involve immense complexity in land and revenue records, but would also give opportunities for corruption, chicanery and error. The present revenue system by which a poor class of land receives a lighter assessment is more just because its privileged position due to its inferiority in fertility passes automatically with the parcel of land to its inheritors and alienees.

(V) However well intentioned the relinquishment or reduction of revenue demands upon individual holdings by the State may be, this action is likely to have results prejudicial to the property rights (e.g., in partitions) and status of the individual landholder in the village community. Indeed the privilege which the State would confer will often seem trivial in comparison with the value of other privileges of which its possession would deprive its recipient.

(VI) The introduction of the new principle in tracts under fixed assessment would deprive the proprietary body of estates of a right, which they have always exercised in making contracts with the State for the payment of land revenue, i.e. the right of apportioning the total demand for the estate over the holdings and using their unique knowledge of the comparative fertility of various portions of the village in an equitable adjustment of burdens.

(VII) The new sytem would involve the abandonment of the system of fixed land revenue and the substitution of fluctuation in its place. The former is of old standing and well suited to the conditions of large portions of the province in which it is in force. It has consolidated into a recognized and stable set of principles, based on experience and understood by people. It has shown, in spite of its name, a flexibility in working and a felicitous resilience to the needs of the people and the State.

(VIII) Fluctuation is comparatively modern and has not yet attained the position of a proved and tested static system. It has required the application of successive experiments and expedients to fit it for its purpose : and the latest of these expedients

is now on trial in one district only for the first time. It is in force only in areas of intense canal irrigation : and while even in such areas, where it has much to recommend its use, it has exhibited certain defects, it is a matter of conjecture whether it would work at all in " well " or *barani* tracts. It is likely to involve undesirable relations between the low paid assessing agency and the assessee. Its extension would in all probability force on the decline of the village community system, which has been a factor for strength in the development of the Province and still makes its contribution to its characteristics and prosperity.

17. We are asked to give some estimate of what the introduction of the new system would cost in loss of revenue. This is not possible on the statistics enclosed with the papers. Not only are the figures incomplete owing to the exclusion of minors' holdings and antiquated (more than 10 years old !), but they were originally put together in haste for the different purpose of electoral roll discussions, in which only comparative correctness was required, and are misleading for the present purpose. It would be necessary to use statistics of unquestionable accuracy in connexion with any question relating to the chief source of provincial revenue. Owing to the appropriation of the power to impose taxes on profits from trade, financial dealings, commerce and industry by the Central Government, all other avenues of revenue remain hopelessly jejune and limited for the provincial Government.

18. As regards the question of whether the loss in the lower grades could be made up by surcharges and supertax on the higher, this is not really a feature of the English income-tax system. The purpose of the surcharge is not to make up for the fact that certain incomes are exempt, but is merely one of the many ways of " soaking the rich " devised by the modern State with its costly activities.

19. Finally the question is asked " Can anything else be suggested to attain the same end ?" There seems to be some confusion of objective in the enquiry. What are the duties of a State which levies a toll from agricultrual land ? The answer would seem to be that it should arrange —

(*a*) that land of poor productive or rental value pays less than more fertile parcels ;

(*b*) that in bad seasons the stringency of the demand is tempered to the fall in production ; and

(*c*) that in catastrophic declines of prices, not allowed for in the scheme of the demand, similar postponements, reductions or relinquishments are made to meet the special case.

It is right and proper that the Punjab should see that its fixed assessments conform in working to these principles and that its fluctuating system is likewise perfected to meet them. Across these obvious principles the trail has been drawn of helping the under-dog, economically speaking, in the land-owning community quite a laudable objective in itself. It has been sought to define his position alternatively as the possessor of a small holding or the possessor of an uneconomic holding. I need not travel over the difficulties surrounding both these definitions again ; but as regards the ' uneconomic landholder', I observe that the mere reduction of a small government demand on his land is not going to turn him at once into an economically satisfactory or self-supporting person by a stroke of the pen. The real problem is not to rid him of a few annas or rupees of State impost but for the State to develop avenues of industry and employment or exploit sources of production so as to enable him to become self-supporting by supplementing in other ways the insufficient hereditary possessions with which he finds himself endowed by fate.

It must also be remembered that the land-owning classes have not got the monopoly of including ' economic under-dogs ' in their ranks. The condition is, alas, widespread in other ranks of society and occupations in the Punjab. Once the principle is adopted for land and agriculture, inexorable pressure will be exercised to extend the principle in its application to any direct or indirect payments made to the State by daily labourers, artisans, menials and a host of others who can claim to be in an economically unsatisfactory position.

EXTRACT FROM A SUPPLEMENTARY LETTER.

I think there is a confusion owing to trying to make land revenue into a tax on profits. It certainly is not in India, or, as far as I know anywhere in the East—at least in the near or Middle East of Asia. It's really very much more like 'rates' in a town in Europe in modern times, an impost on land and premises, not calculated on what profits the owner makes minus the expense it costs him to net those profits, but limited to the simple test of what rent he does get for them or would get for them if he let them.

You get into trouble the moment you try to assume a flat rate for cost of labour for cultivation of land owned by a petty self-cultivating owner because any thing you assume will be contrary to the facts which will vary from holding to holding. Not only will the same area of land be infinitely more troublesome to cultivate according to crops grown, e.g., four acres of wheat followed by a kharif fodder crop takes much less labour than the same area of rice followed by another crop in the rabi or of sugarcane, but in actual practice the same area will be cultivated by all members of a family living on the plot. In the same village a man and his wife and son aged fourteen may be cultivating three acres and next door another three acres may be cultivated by a man and two adult sons and their families.

It is much safer and more practical and more fair to stick to the rental value to the owners whether the plots are rented or not.

(Sd.) G. DEMONTMORENCY.

Written opinion of Sir Patrick Fagan.

I. (*i*) *Number of question I* (*1*)[1].—I am not quite clear as to the precise bearing of the question; but taking the current definition of "net assets" (of an estate or group of estates) as given in Appendix C of the Questionnaire, it is, I apprehend, suggested that the "net assets" obtainable by each land revenue payer from his proprietary holding, however small, should be calculated in accordance with that definition which, I note, primarily applies, as enacted, to entire estates or groups of estates and not to individual holdings. If this is what is intended and if the estimate or calculation is literally to be made for each land revenue payer and his holding, the proposal seems to me to be from a practical point of view quite out of the question, however possible it might be made to appear theoretically. The current market price for each staple crop would no doubt be the same for all holdings within a tract of considerable size, such as an assessment circle, but the kind and area of each crop and its yield would vary from holding to holding, as also to some considerable extent the cash or kind rent to be applied in the calculation. If then I have rightly understood the suggestion made in question I (1), I am of opinion that the amount of work which it would involve and the time and establishment required to carry it out satisfactorily would be prohibitive.

(*ii*) I do not understand the applicability of the distinctions (*a*) and (*b*) to the estimate or calculation of "net assets". These are not, so far as I am aware, dependent on the system of assessment, fluctuating or fixed, applied to a holding; though no doubt the net assets as estimated or calculated would itself show a wider variation as between different holdings in the case of those to which a fluctuating land revenue assessment had been applied than to those under fixed assessment.

II. (*i*) Question 1 (2) and (3) appear to deal with the subject of possible changes in the system and principles of land revenue assessment in the direction of greater elasticity rather than with the calculation of net assets. Presumably the underlying idea is to place land revenue on a fluctuating basis so as to assimilate it as far as possible to income-tax, of which a fundamental feature is annual fluctuation of demands in accordance with annual fluctuation of income.

(*ii*) As regards question 1 (2)(*a*), the replacing of fixed assessment by fluctuating assessment, I understand that by the latter is meant the system of fluctuating assessment in one of the forms in which it has been current in the Province for many years; that is, broadly, the imposition of crop rates on matured areas as ascertained at crop-inspection. I very much doubt

[1]For Questionnaire see page 148.

whether the great mass of the small peasant proprietors of the Province would welcome the change. They certainly would not have done so fifteen years ago when I left India : on the contrary they would have rejected the proposal vehemently. But things have no doubt changed and perhaps the opposition would not now be so strong. Theoretically no doubt the change has much to commend it as in accordance with recognized canons of taxation. But it would undoubtedly require very considerable increase in the subordinate staff of patwaris and kanungos, while continuous and vigorous control by superior officers of all grades would be indispensible if a chaos of corruption and extortion is to be avoided. Would it be possible to secure this under present conditions ? The question of the enhanced cost of establishment and administration is one for serious consideration in connexion with the proposal.

The subject of question 1(2)(*b*) appears to be a necessary incident of question 1(2)(*a*). I doubt if any one rule can be laid down for the whole province.

(*iii*) As regards question 1 (2)(*c*) I feel scarcely competent to express an opinion on the suggestion, as I understand it, that the sliding (price) scale system of land revenue assessment should be introduced throughout the province. The fact that it is in actual practice working well in the Lower Bari Doab is no doubt encouraging, so far as it goes. The system may, I think, be fairly described as one providing for *quasi-mechanical* remission of land revenue from year to year on account of the divergence of current market prices from and below the standard prices assumed at settlement for the purpose of framing average revenue rates for assessment circles. I am not clear whether the annual calculation explained in the *Communiqué* (Appendix A) is to be made for each holding or for each estate, or only for entire assessment circles. Paragraph B (*b*) of that document seems to have a bearing on this point. Are factors (*i*) and (*ii*) as there given to be considered, (*a*) holding by holding, or (*b*) for each estate or (*c*) for each entire assessment circle ? If (*a*), then it would seem that the work involved will be enormous, and if (*b*), it will be very considerable. On the other hand if alternative (*c*) is to be adopted, then it seems probable that there will be considerable inequality of treatment as between estates, not to mention as between holdings. This exemplifies the danger of applying in matters of land revenue assessment averages derived from a large area to the individual units comprised in that area. The co-efficient which statisticians term the "standard deviation" from the mean or average is apt to be large in the case of such quantities as crop yields. The suggested extension of the sliding scale system to the entire province seems to have in theory much to recommend it, but a good deal of modification

in detail would probably be needed while the extent and cost of the additional establishment which would be needful would seem to require very careful consideration.

(*iv*) *Question 1 (3)*.—Average yields would apparently (see II (*iii*) above) be taken account of to some extent in the sliding scale system of assessment; but the scope of question 1 (3) seems to be somewhat wider; though how much wider is perhaps not very clear. Generally speaking the proposal seems to me to go a good deal too far in the direction in treating land revenue assessment as a more or less purely arithmetical operation. That most emphatically it is not. The true average yield per acre of crop on a large agricultural area is a very elusive quantity, only to be ascertained by extensive and scientifically controlled observation. And even then, assuming that something approaching a true average has been obtained the "scattering" of the averaged units, or in statistical terminology, "the standard deviation", is likely to be large so that calculations based on the average are by no means likely to fit the actual conditions of many of the individual units. This is, of course, the primary danger of basing land revenue assessment to any exclusive degree on calculations of arithmetical averages. On the whole it seems to me that the proposal contained in question 1 (3) is impracticable; especially if the estimation is to be made village by village, and much more if holding by holding. In these two cases the labour involved, and the inspection and control by superior officers which would be indispensable would, so far as I can see, be enormous. If on the other hand the estimates of yield per acre were to be framed for entire assessment circles the result would be a rough approximation (unless an adequate scientifically trained staff were employed) which would be of comparatively little use for appropriate detailed assessments. If the system were further complicated, as suggested in question 1 (3) (*c*) by a right of appeal against assessments of entire estates or of individual holdings (on the lines I presume of the annual crop of income-tax objections) it would I should expect speedily become unworkable.

III. *Question 2*.—The proposal to revert to collections in kind (the *Kham tahsil* of indigenous rule) is at first sight quite impracticable, and further reflection only confirms the conclusion. It is, I think, scarcely needful to treat it at any length. It would involve a complete revolution in the system and method of land revenue assessment and would, I have no doubt, be highly unpopular with all except those in a position to benefit themselves by free bribery, while opportunities for active extortion by the subordinate revenue staff would be frequent. The staff which would be required for an attempt at even reasonable efficiency would be enormous, and even so the attempt would

in all probability fail. Extensive buildings would be needed for storage of the produce collected, while a large and qualified staff would have to be provided at no small expense for its disposal by sale to dealers and to the public. The State would then have to assume extensive commercial functions. It is needless to say more.

IV. *Questions 3 and 4.*—It is, I suggest, scarcely correct to regard the existing system of land revenue assessment as based on contract. It is rather a method of State taxation based on immemorial custom and usage prevalent in India, under which the State is entitled to appropriate a share of the produce of land or of the cash value thereof, which share it may fix at its own discretion. The period for which the assessment is to remain in force is fixed by the Local Government under the authority given by section 53 (3) of the Land Revenue Act. A premature termination of that period, if and when necessitated by the introduction of a new system of assessment, would not on the above view involve a breach of contract, but it would, I presume, require special legislation to authorize it.

Whether it is desirable to introduce any new and approved system of land revenue assessment simultaneously over the whole province or gradually, district by district, or tract by tract depends, it seems to me, largely on the nature of the system. If it involved very drastic change in procedure and methods a gradual introduction would probably be desirable, even though the period which would elapse before its introduction would be completed were long. Revenue payers would in this way gradually become accustomed to it, and if it met with general approval, the introduction in its later stages could be accelerated. Moreover its gradual introduction would afford time and opportunity for obtaining valuable practical experience of its working and of modifications which might be required. If on the other hand the new system did not involve very drastic disturbance of principles or methods its simultaneous universal introduction might be possible, though even so introduction by instalments would, I think, be preferable, each instalment comprising a considerable tract including several districts. The sliding scale system of assessment, now under trial, would with needful modifications probably fall into this category. It seems to be in fact a system for annual revision of land revenue assessment already framed rather than a new system of assessing land revenue.

V. The "economic holding" is an elusive conception inasmuch as its definition or characterization involves many important factors other than the mere area of land held. It is, I presume, scarcely necessary for me to refer to the very thorough and suggestive discussion of it given in Chapter IX of

Mr. Calvert's excellent book, *The Wealth and Welfare of the Punjab*. Taking the case of the self-cultivating owner, who holds no additional land on lease, the case which I understand is contemplated in the question, I suggest that some figure between 5 and 10 acres may be taken as the area limit of a small holder, though the limit by itself does not mean much. It might be possible to have a series of limits based on various hypothetical conditions of irrigation, location, the type of agriculture practised, etc., but such a task is quite beyond my powers after an absence of many years from the province. A principal factor in the whole question is that the adverse economic pressure of small holdings is accentuated by the fact that extensive agriculture adapted to cereals, is so widely practised on them in place of the intensive variety.

"Small holders" mainly dependent on sources of income other than agriculture should not, I think, be classified as such.

VI. *Questions 6 and 8.*—I cannot support the proposal to exempt any group of landowners from the payment of land revenue. This, I presume, put forward, partly at any rate, with a view to the assimilation of the principles and incidents of land revenue demand to those of income-tax. There are, I suggest, distinct limits to the possibility of such an assimilation. They are of course both forms of State-taxation and as such are chargeable on and intended to be paid out of current net income, but beyond this there is no essential similarity. On the contrary it is, I suggest, an accepted principle that income-tax as such is not a suitable impost for a man of small or comparative diminutive incomes, and this not, primarily at any rate, because of hardship to those who would be taxed but because the assessment and collection of small sums on the lines of income-tax is expensive to the State and therefore defective from the point of view of fiscal productivity. [See also paragraph XIII (1) below.] On the other hand such a principle has never been admitted in the case of Indian land revenue, while the comparative facility with which it is now collected under a system which it has taken a century or more to build up goes to show that the principle is in fact not applicable. I am not in a position to frame any approximate estimate, but there is, I should think, no doubt that the exemption of small holders from the payment of land revenue would entail a very serious decline in the fiscal resources of the Provincial Government unless it were compensated by an adequately enhanced scale of assessment on all other landholders. The exemption would not, I think, render possible any comparable or appreciable reduction in the scale and cost of revenue establishment.

VII. *Questions 9—11.*—In view of my reply to questions 6—8 it is not, I think, necessary for me to deal with questions 9—11. They afford illustrations of the practical difficulties likely to arise in working the principle of exempting small holdings in pursuance of a policy of assimilating land revenue to income-tax. They can only be met by introducing undesirable complexities into the scheme.

VIII. *Question 12.*—The present practice of treating estates or tracts in which the normal proprietary holding is small with comparative leniency in the assessment of fixed land revenue is, of course, sound and necessary under present agricultural conditions. If and when farming on small holdings becomes more intensive and more mixed the matter may become of less importance, but that stage is, so far as I know, far distant. For tracts under fluctuating assessment where acreage rates, uniform throughout an assessment circle, are charged on matured crops the distinction in assessment between small proprietary holdings and others ceases to be possible, though the principle of fluctuation of itself is probably of more benefit to the smaller than to the large landholder. Something further might, I should think, be done to reinforce the practice under consideration in estates under the present system of fixed assessment by allowing lower rates on the smaller holdings in framing at Settlement the internal distribution (*tafriq-bachh*) of the assessment announced [Punjab Land Revenue Act, Section 56 (1) and (2)]. So far as my recollection goes, the distribution was made more or less extensively with reference to class and situation of land. Some such procedure as I suggest would probably meet the cases of estates or tracts in which small holdings are interspersed with larger ones. On the other hand in estates where the normal holding is small the Settlement Officer will have allowed for the fact in framing his village or circle assessment.

IX. *Question 13.*—I should think that the suggested differentiation is scarcely practicable, nor does there appear to be much to be gained from it by the small proprietor concerned.

X. *Question 14.*—I presume that the reference is to suspensions of fixed land revenue which may ultimately lead to remissions of the amount suspended initially. The provisions appropriate for securing more liberal treatment, when the occasions for suspension or remission may arise, to small landholders as compared with others, might, I think, be analogous to those regulating the original assessment of the holdings of the two classes respectively (see paragraph VIII above), e.g., the total amount to be suspended or remitted in an estate having been determined the rate or rates per acre at which this sum should be distributed over

(or credited to) the several holdings in the estate would be higher in the case of " small " holdings than for the others, that is to say, the distribution of the suspension or remission should be in approximate proportion to the distribution of the fixed assessment framed at settlement.

XI. *Question 15.*—In this question " surplus " no doubt means " net assets " as now defined in the Land Revenue Act (Appendix C to the Questionnaire). If, as suggested, land revenue is a tax upon labour and costs, that is upon the tenant's share of the gross produce, or in the case of a self-cultivating landowner, on that share of the gross produce which he may be considered to earn by his own labour in cultivation, then it follows that land revenue must absorb the entire net assets and more. My experience, now, of course, much out of date, gives me no reason whatever for thinking that this can have been the case. On the contrary, the assessments framed and imposed were generally well below the then standard of half-net assets, in some cases, if not generally nearer one-quarter than one-half. I cannot believe that the net asset calculation of that era, though lacking in mathematical accuracy as such calculations always must be, were so wildly in excess as the supposition under consideration necessarily implies. As a matter of fact it was fairly notorious that the estimates of average crop yields, a principal datum of the calculations, were for precautionary reasons, taken well below what would have been true figures. With the present reduced standard of one-fourth " net assets " it must, I should think, be quite impossible for land revenue to be a tax upon labour and costs. No doubt if the net assets per acre of each proprietary holding could be separately ascertained, the " standard deviation " or "scattering" above and below the corresponding average for an entire assessment circle would be found to be very considerable. But this, of course, is an aspect which is or should be taken account of in framing, after close village inspections, the actual village assessments and in their distribution over individual holdings. Otherwise, the result is likely to be frequent over-assessment (or under-assessment) on the basis of purely arithmetical calculations, a danger which the competent Settlement Officer is anxious to avoid.

XII. (I). *Question 16.*—Since 1928 "net assets " have been the subject of statutory definition in section (3) (18) of the Land Revenue Act. The previously current executive definition is to be found in paragraph (*b*) of part D of Appendix 1 of the Settlement Manual, 3rd Edition. The purport of both definitions is that " net assets " means the surplus of gross produce over the ordinary expenses of cultivation. The second (now obsolete) definition proceeds to identify "a full fair rent" paid by a tenant-at-will as a sufficiently near approximation to " net assets ". The

first (now current) on the other hand does not bring rent into the calculation directly but instead includes as a part of the expenses of cultivation the share of gross produce retainable by a non-occupancy tenant paying rent at the normal local rate actually prevalent.

On the principles of economic theory the tenant's share of gross produce includes, or should include—

(*i*) Wages for his own labour in cultivation and that of any other labour which he may hire.

(*ii*) Interest on capital, fixed or circulating applied by him at his own cost.

(*iii*) Depreciation of fixed capital.

(*iv*) Replacement of circulating capital consumed or spent, e.g., seed, manure, expenditure on canal water rates and means of irrigation, food of cattle, etc.

(*v*) Reasonable profit, i.e., the remuneration of enterprise or recompense for incurring risks. In economic theory again the normal rent payable by the tenant under the forces of competition will be of an amount such that the surplus of gross produce left after its payment will be just sufficient to cover the total of the above items. It is, of course, needless to observe that in practice no such scientific distinctions nor the calculations incidental to them are present to the mind of the average Punjabi peasant and that economic theory works with very considerable friction. The current statutory definition of net assets appears, however, to be in accordance with the above principles, and it further allows for deductions from gross produce of such classes or items of expenses of cultivation as the tenant, by agreement or otherwise, does not defray from his share of the gross produce. That he does not do so implies of course that in such cases the pitch of his rent is such that the share of the gross produce left in his hands is insufficient to cover all the expenses of cultivation.

(II) Now if it could be shown that the normal rents paid by non-occupancy tenants in the province are or approach being rack rents, then the current definition of net assets might fairly be open to criticism on the ground that the last item in the explanation of " ordinary expenses of cultivation " appended to the definition, i.e., the share retainable by the tenant, does not adequately cover the wages of the tenant *qua* agricultural

labourer, nor his reasonable profit. On the subject in Chapter X and elsewhere of his work already quoted Mr. Calvert suggests that in the Province generally the kind (*batai*) rents paid by non-occupancy tenants are rack rents. He attributes to this as a cause the increasing prevalence of kind rents in the better soils and on irrigated lands. He even goes so far as to write (page 200) " the customary share is normally double what a fair rent should be and leaves the tenant less than a reasonable estimate of his costs of production." The last statement cannot, I think, be applicable to the whole province, nor to all classes of land. So far as the south-western portion is concerned my own experience was that tenants were generally in a strong position which enabled them to extract numerous concessions from the landlords. No doubt in the central and eastern districts, where the pressure of population is comparatively high and holdings small or restricted in size, proprietors are willing to pay high or full rents for additional land to cultivate as tenants, and such rents probably do not, apart from careful scrutiny and analysis, provide a sufficiently reliable index for the share of gross produce normally adequate to cover the reasonable wages of a tenant *qua* labourer. But for the generality of tenants who are not also proprietors the standard of rent which they are prepared to pay depends after all on their own general standard of living and their " will to welfare ". If that were higher, normal rents would, it is likely, be lower, unless as would probably be the case a higher standard of living brought with it greater agricultural efficiency and increased gross produce.

(III) Whatever degree of substance there may be in the above line of criticism, I do not think that a remedy is to be sought in an amendment of the current definition of " net assets". Such an amendment if made will most probably take the form of defining net assets as the balance of gross produce left after calculating or estimating the items which are due in accordance with economic theory to the actual cultivator as detailed in paragraph XII (I) above. There is, I understand, what was proposed by the Indian Taxation Enquiry Committee of 1924-25 in paragraph 103 of its report, and is more or less identical with the alternative mentioned in the note appended to question 16. The Taxation Enquiry Committee apparently contemplated that the complicated operation required would be carried out holding by holding. This, it is hardly necessary to say, would be quite impossible. Something of the kind seems to have been attempted without success in the early period of land revenue settlement in the United Provinces. (Punjab Settlement Manual, paragraph 26.)

The estimates of net assets, if the above principles were adopted, would have to be framed in accordance with present

and past practice for entire assessment circles and would involve the ascertainment of standard or normal rates of agricultural wages. What standard should be taken?—(*i*) that of the labouring tenant who cultivates rented land, or (*ii*) of the true agricultural labourer who is neither a tenant nor a land owner? The former could only be ascertained by precarious inferences from the standards of rent paid, so that the position would really be very much what it is under the current definition of net assets. For the case of the true labourer the data would be difficult to collect and more or less indeterminate since a considerable part of his remuneration is paid in kind, some of it grain and some of it other commodities, irregular in various degrees, and varying with the conditions of the harvest. Such standard rates as might ultimately emerge would probably not be such as could fairly be described as liberal. No doubt it might be possible to fix a purely conventional rate of wages and profit for the cultivating owner, not depending on ascertained facts and which could be made as "liberal" as thought desirable, but this could hardly be considered a satisfactory procedure. A full fair rental, if it can be ascertained, is after all the true economic measure of the "net assets" of land since it represents, in theory at all events, the specific contribution of land as such to gross agricultural produce, that is to say, of land regarded as a factor of production distinct, though not separable from capital and labour. The proper course for dealing with the question is, I suggest, a very careful scrutiny and analysis of available statistics of rent. This duty is already imposed on settlement officers in paragraph 311, and in paragraph 4 of Appendix XX of the Settlement Manual. Such scrutiny should afford an effective check on the use of rent data for the framing of estimates of net assets as at present defined.

XIII. (*i*) *Question 17.*—The principle of differentiation between earned and unearned income in the assessment of income-tax is, I think, a salutary one on social if not on economic groudns. In my reply to the last question I have already indicated my view that by the utilization of rent data properly scrutinized and analysed, or properly rectified, if that term is preferred, the estimate of net assets may be made to approximate fairly closely to the true average annual surplus and that it is not necessary to amend the current statutory definition of "net assets". Consistently with the above I see no objection to the imposition of a higher scale of income-tax on non-agricultural unearned income than on earned.

(*ii*) But on the general subject of the assimilation of land revenue to income-tax I should like at this stage to offer a few observations. As I have already said in paragraph VI in reply to question 6 to the possibility of such assimilation there are, I

think, distinct limitations in a province such as the Punjab. Income-tax of the ordinary type is, as there suggested, a quite unsuitable impost for a mass of small assessees. Further a workable and efficient income-tax system assumes that for the better ascertainment of the individual incomes of at least the great majority of the assessees there exists some form of intelligible and accessible accounts and that they are capable of submitting to the authorities concerned reasonably, if not entirely, reliable returns of income. Failing this the assessment to income tax of hundreds or thousands of assessees with small incomes must inevitably be chaotic. Needless to say such assumptions are entirely inapplicable to the land revenue payers of the Punjab, most of whom are illiterate and keep no accounts. On the whole I am of opinion that any real assimilation of land revenue to income-tax is impracticable and that it would not be likely to afford relief to land revenue payers from any avoidable hardship which the current system of land revenue assessment may be proved to entail.

XIV. (*i*) *Questions 18—20.*—The suggestions in these questions seem all to be more or less directed to the assimilation dealt with above. They all appear to me to be impracticable. It is, I think, impossible to draw any satisfactorily definite and workable line of division between those who are small landowners and those who are not; and there are other sufficiently obvious difficulties in the measures suggested.

(*ii*) *Question 21.*—The only indirect method of taxation of agricultural produce would appear to be an excise imposed on it, or octroi and terminal taxes payable when such produce reaches the local market or the rail head for transport to distant markets. All of these are simply out of the question.

Question 22.—The meaning of this question is not clear to me.

Question 23.—Relief by graduation of the local rate, even if it were practicable, would not, I think, be of material assistance to the small land owning revenue payer assuming what has not been proved, viz., that he is suffering actual hardship from which it is desirable and possible to relieve him.

XV. *Questions 24—27.*—In view of what I have already written it is not, I think, needful for me to reply to these questions. The points raised in them throw into relief the impossibility of assimilating land revenue to income-tax, or in other words of attempting to tax the incomes of a mass of illiterate peasants on the same lines as the incomes of those engaged in trade, business or professions and who are for the most part literate.

As regards question 27 I invite reference to paragraph XIII (*ii*) above.

Question 28.—The non-agricultural income of a revenue payer should of course not be assessed to land revenue, but if of substantial amount as compared with the land revenue assessment which it is proposed to impose on him, it may, I think, be fairly taken into consideration as some index of his ability to bear the latter.

XVI. (*i*) *Question 29.*—So far as my experience goes the reply to the question is decidedly in the negative. I need hardly point out that there exists an elaborate scheme of rules for the exemption for suitable periods of agricultural improvements, such as wells, embankments, etc., from the payment of land revenue assessed on the improved land so far as it is due to the improvement. I know of no ground for thinking that the payment of land revenue discourages resort to improved methods of agriculture, such as the use of better seed, of improved agricultural implements of more effective rotations, and the cultivation of more valuable crops. In view of the comparatively minute proportion of gross produce absorbed by the land revenue assessment, it could be hardly expected that there should be any such adverse effects as the question suggests. Attention may be drawn to Mr. Calvert's Observations on pages 163—68 of the work already quoted, especially those at the middle of page 164 and on page 168.

(*ii*) *Question 30.*—The answer is in the negative so far as my experience goes. See the references quoted above.

(*iii*) *Questions 31-32.*—The answer to question 31 is decidedly in the negative. In cases in which a small land revenue payer may find it difficult to support himself and his family the difficulty cannot and should not be attributed exclusively to the pressure of land revenue. The difficulty must be considered as a whole and is attributable in most cases to special domestic and economic conditions, such as pressure of debt, ancestral or other, litigation, loss of plough cattle, dissensions in his household, death of his spouse, etc., etc ; one or more of these in addition to the climatic and other vicissitudes and risks incidental to all agriculture.

Question 32.—This is a debatable question. Any form of taxation specially on receivers of small incomes, must necessarily *pro tanto* tend in some degree to keep the standard of living below that which it might be in the absence of such taxation. But land revenue on the scale on which it is generally assessed in the Punjab certainly plays a very minor part in that complex total of causes which placed the general agricultural standard of living at a level not higher than it is at present. The total exemption of the small landholder from payment of land revenue would probably not cause any perceptible or general rise in that

standard, and it is, I think, very questionable whether it would in the alternative of itself tend to increase the population.

I would here like to suggest that in any consideration of the effect of current taxation on the agricultural standard of living the indirect burden imposed by the present high scale of the Indian Sea Customs Tariff should receive attention. During the last two decades that scale has been greatly enhanced and by the Government of India's own recent admission is at present so high that further enhancement is not possible.

XVII. (*i*) *Question 33.*—I should be disposed to answer the question in the negative, but much would depend on the "steepness" of the graduation postulated in the question.

(*ii*) *Question 34.*—The communal bond was weakening fifteen years ago and since then has probably weakened still further. I do not think that the graduated scale would have much effect on the process.

(*iii*) *Question 35.*—For reasons already given I regard the application of income-tax principles to land revenue assessment as an unattainable "will-o'-the-wisp". The points raised in the question are but another illustration of the insuperable difficulties which would arise in carrying out the application.

(*iv*) *Question 36.*—If the suggestion underlying the question is that the tenant should be taxed on his income, i.e., on his earning by way of wages and profit as included in his share of gross produce, it is, I think, entirely undesirable and impracticable. The only possible form of imposing taxation on tenants would apparently be to levy a poll tax graduated by the size of the holding. In practice of course, such a proposal would be absurd.

Mortgagees with proprietary possession of the area mortgaged for the term of the mortgage are at present liable for the land revenue assessed thereon. Hypothecatory mortgagees without such possession receive interest which is or should be included in their income assessable to income-tax.

(*v*) *Question 37.*—I do not see how the transfer of any part of the benefit of the reduction of land revenue to the tenant could be secured unless the rent of all non-occupancy tenants were fixed by the State for some definite term. This would require a drastic change in the tenancy law of the province. In the absence of such a measure the rents of non-occupancy tenants must continue to be regulated by competition more or less modified no doubt by custom, irrespective of the pitch of the land revenue assessed in the areas of their holdings.

XVIII (*i*) *Question 38.*—The first part of the question can without hesitation be answered in the negative. Landowners certainly have no valid claim whatever to the whole of the additional net income or net assets resulting from the construction of irrigation canals at the expense of the State.

(*ii*) The second and third parts of the question raise issues which have been the subject of a very voluminous official literature in the past. The last decade of the last and the early years of the present century were particularly prolific.

The result in broad outline was, if my memory is correct, the levy of two classes of State demand on areas benefited by canal irrigation, (*a*) Occupiers' rates payable by the actual cultivator per acre of crop irrigated and matured, such rates representing the price of the water as delivered on the land and actually used as a factor of production, and so pitched as to afford the State, as constructor and owner of the canal, a reasonable financial return inclusive of interest on and recoupment of capital sunk in the canal and of working expenses, (*b*) as land revenue or " owners rate " the prescribed share of that part of the net assets of the land irrigated or irrigable by the canal which was attributable to the irrigation. In the numerous cases where previous to the introduction of canal irrigation the land affected had been incapable of cultivation the whole net assets would obviously be so attributable. The principles involved in this system have, so far as I know, generally stood the test of time. It would be possible of course for the State to push up the occupiers' (water) rates to a pitch higher than that indicated above and then to depress *pro tanto* the net assets due to irrigation, of which it would be entitled to the prescribed share only and not to the whole as in the case of the occupiers' rates. This policy was, if I remember rightly, suggested at one time, but was not ultimately followed.

On the other hand the system adopted gives room for adjustment as between landlord and tenant, for it is open to the former if he wishes to charge a high rent and in return to bear some share of the occupiers' rates.

(*iii*) I cannot see ground for any drastic change in the system, nor indeed how it can be improved upon. The occupiers' rate and the (irrigated) land revenue rate might be consolidated into one combined rate payable by the actual cultivator, whether tenant or landowner, leaving the necessary adjustment of rent between tenant and landowner to be carried out by them. This would give rise to a good deal of dislocation in their relations without any conspicuous compensatory advantage either to them or to the State. It might be again suggested that the State

should forego occupiers' rates and realize its claim to a share of the unearned increment entirely out of the net assets which would obviously be substantially increased under this method. But clearly it would involve a greater measure of surrender of unearned increment as well as a large and unjustifiable decrease of State resources. I therefore see no sufficient ground for altering the system of taxation of the products of canal irrigation which was introduced many years ago and which, so far as I know, is still in force.

XIX (*i*) *Questions 39-40.*—As already stated I do not believe that the principles of income-tax can be successfully applied to land revenue. The points raised in these questions are only further instances of real difficulties in the way of such a measure.

(*ii*) *Question 41.*—A reduction of land revenue would no doubt have in some degree the effect suggested, and I do not think that it would be for the ultimate interest of the small landowner. The experience of the past in the matter of extensive land alienation throughout the province cannot be neglected.

(Sd.) P. J. FAGAN,

30-11-37.

सत्यमेव जयते

Written opinion of Mr. H. Calvert, C.S.I., C.I.E.

BEFORE proceeding to answer the Questionnaire[1] it seems desirable to record a few important facts which must be borne in mind when considering the proposals.

(*i*) There are over three million revenue payers in the province; the area cultivated is about thirty million acres; the number of cultivators is probably over four million. These figures should indicate the difficulty of any attempt to assess revenue annually or for any short term. Recent tendency has all been in favour of extending the term of any "settlement" and it is difficult to understand the revolutionary proposal to reverse the tendency of the last sixty years and to introduce a term hitherto never seriously thought of.

(*ii*) The revenue assessment in the Punjab is very light; the average seems to be about one rupee twelve annas per cultivated acre; it is about six to eight per cent of the value of the produce, a very low item in the owner-cultivator's outgoings. My *Wealth and Welfare of the Punjab* shows how agriculture has prospered under the present system of assessments fixed for comparatively long periods at low percentages on the produce.

(*iii*) Over half the cultivated land is held by tenants, most of whom pay rent at half the produce (or about 45 per cent after allowing for menials dues). Further the great majority of small owners appear to have taken extra plots on rent and there is a demand all over the province for land by tenants even at prevailing high rentals. If a very high rent of half "batai" does not deter men from cultivating land, it seems rather unreasonable to regard a land revenue demand of six to eight per cent of the produce as in any degree severe.

(*iv*) The small owner nowhere grumbles at the revenue; he would everywhere readily accept more land from the State at the same terms; he knows it is a small item in his outgoings. The grumbler is the big owner, especially the absentee who is at the mercy of his local agent. Such an owner may get thirty per cent or even less of the produce, and a deduction of a further six or eight per cent from this for revenue seems a serious inroad. But, I believe, that nowhere and at no time in recent history has there been any example of land being refused on account of the assessment. Under the law the owners have a perfect right to refuse the contract offered by the State; they never do. The revenue demand, then, is no deterrent to ownership.

(*v*) The revenue demand has not served to restrain the price of land from rising; it is not an item of any importance in the price. It has nowhere served to restrain persons from cultivating land.

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[1]Page 148.

(*vi*) The present system of assessment and collection works smoothly ; it is well understood. Cases of difficulty are almost negligible amongst the millions of payers. Any proposal to change this system will incur grave risks of upsetting a well established routine. Ease of collection is an important element in sound taxation, and the understanding of the system by the payers is another. There is wisdom in leaving well alone.

(*vii*) The land revenue is a levy on land, not on crops ; the stress laid on cropping in settlement operations is due to two facts : nearly all revenue-paying land is under arable seasonal crops and most rents are paid in kind, i.e., in the produce of those crops. Were rents all paid in cash, the type of cropping would lose significance. Were most of the land under pasture as in England the basis of revenue would be the livestock. It may be worth considering the case of a province where rents are in cash (United Provinces ?) and where the system of cropping has little bearing on the assessment. The alternative to the Indian system, (e.g., in Europe) is a levy based upon the sale value of theland, say 1½ per cent, so that land worth Rs. 400 per acre would pay Rs. 6 land revenue. This would be unfair in the Punjab where much of the high price is due to the pressure on the soil, instead of the agricultural value.

QUESTIONNAIRE.

Question 1.—It is quite impracticable to estimate each year the net assets of each land revenue payer, whether the revenue be fixed or fluctuating. The fact that so much of the incomings and outgoings are never brought on to a cash basis would alone prevent the attempt. The number of staff required to make the calculations for three million owners and thirty million acres would be colossal.

(2). (*a*) It is neither practicable nor advisable to replace the fixed system by a fluctuating one. The fluctuating system was a rough and ready method of affording relief to owners in insecure tracts ; it was extended to colonies as a temporary measure and should be withdrawn as soon as conditions permit. The argument against the fluctuating system is that it is based on the fundamental error of supposing that the *land* revenue is a demand on the crop. It is the land which is liable for revenue and not the crop ; it was only natural that when attempting to determine how much revenue an owner should pay, his income should be taken into account as showing his capacity to pay. But land assessed to revenue remains liable to pay even though it is no longer cultivated but converted into a golf course or house site or pleasure garden.

(*b*) The scheme for a complicated system of crop to crop assessment in Mianwali failed owing to the weakness of the human machine and the complications involved. With the existing type of minor official it would be quite impractical to secure anything approaching a fair result from the application of crop rates.

(*c*) I do not think the sliding scale will prove popular ; it is introducing yet another element of doubt into an already precarious means of livelihood. But I have no experience of the system. It again perpetuates the error of assuming that land revenue is a demand on crops and not on land.

(3) It is quite impossible even for a skilled agriculturist to estimate within, say, 25 per cent, the yield of his crops. On a famous occasion a member of the I.C.S. bet that not even the professors at Lyallpur could get within 25 per cent and won easily. I was present and it was clear that private estimates vary largely with the element of caution in the individual.

(*a*) and (*b*) require no further answer. As regards (*c*) the suggestion that three million owners should be able to appeal every year or half-year appals me. On what ground would the appellate court decide ? Presumably the only witness of value, the crops, would be cut before the case came on.

2. (*a*) It would be quite impracticable to adopt on any large scale the collection of land revenue in kind. In the first place land revenue has in its nature no connexion with the use to which the land is put ; cropping is merely the most general use to which the land is put. The expense of cartage and storage would be immense. The State would, for its own purpose, be selling its share just when the cultivators wanted to raise cash for theirs and might easily bring prices down against the smaller man. Then revenue in kind, as in Baluchistan, tends to be very much greater than in cash. At one time I calculated that in Baluchistan the revenue was worth about seventeen rupees an acre ; this, of course, was in a time of boom prices. It must not be forgotten that the State takes land revenue, not as Douie taught because its predecessors from of old took it, but because it is in need of the funds. The proposal to take in kind would make budgeting almost impossible and in a year of plenty when prices were distressingly low, the income of the State would be reduced to an extent which would make it difficult to render any aid to its people.

(*d*) The scheme would not be acceptable to the owners in a year of good prices and indeed in any year when prices were above normal.

(*e*) Impossible.

The construction of central stores for grain would be very costly and the expenditure would be lost if the system were abandoned as it probably would be after trial.

3. I see no need for any drastic changes, but if it be decided to have a rural revolution :

(1) I would experiment in a small area to begin with.

(2) Obviously depends on the nature of the drastic change.

(3) Not by me.

4. If a rural revolution is to be embarked upon, I would go slowly. In most districts produce is now so easily sold that the people would prefer cash demands ; actually over the last sixty years they have benefited by this system as the prices receivable have been higher than the commutation prices. To deprive them of this benefit would open the door to agitation, and no one could want any agitation over land revenue.

Question 5 on page 3.—(*a*) In England, a small holder is one who holds fifty acres or less. It is quite impossible to define the term in relation to land generally in the Punjab ; for instance five acres of well-irrigated land in Jullundur is more valuable economically than twenty in Jhajjar or Hissar. A pair of oxen can plough about 12 to 14 acres, which may be accepted as the normal holding for a man with a pair of oxen, but this area is too high to be taken as sufficient for livelihood. In Europe a small holder might be one who worked with the spade and not with the plough, and who grew intensively garden crops, such as fruit and vegetables. In the Punjab, practically no one depends solely on the spade, and only round towns is there anything like complete dependence upon fruit and vegetable. So far as the cultivator is concerned, every one is a small holder simply because the one-plough unit is accepted as almost the general maximum.

(*b*) The term " economic holding " cannot be defined in relation to acreage without reference to other factors. See *Wealth and Welfare of the Punjab*, page 185 ff. An economic holding ought to mean such an area as may enable a man to maintain the standard of living customary in his locality. But the actual area must depend upon the other factors mentioned in the question as well as upon the local conception of what is a fair standard of living.

The term " small holders " has nothing whatever to do with the ownership of land, but with its cultivation and, therefore, one who did not himself cultivate cannot be a small holder although he might be a small owner.

Question 6, page 3.—(*a*) I think it would prove impracticable to afford relief to poor agriculturists by exempting small owners. Clearly, if such an one did not cultivate himself, but hired his land at half *batai*, he would have no claim to exemption from land revenue. To a man with 2½ acres or less the demand is so small as to be negligible. The liability for land revenue could be defeated by division amongst members of the family, gifts to temples and so on, and with over three million potential schemes it would not be practicable to exercise any real check. Under the present law, no one owns land in the Punjab free of conditions ; ownership is subject to payment of land revenue. The suggestion to introduce the freehold system would be fraught with innumerable difficulties. For instance, the small plot would be freehold only so long as its owner did not acquire other land sufficient to make the total area outside the exemption limit. That is to say, the tenure would vary with circumstances quite independent of the land held in freehold. Moreover, relief is needed not for the small owners but for the small cultivator. Is it proposed that land exempt from land revenue should be subject to severe restrictions on the rent which could be demanded ? One who owned 2½ acres and rented ten acres might get exemption on the 2½ acres he owned ; one who rented twelve acres and owned none would get no relief ; one who owned and cultivated twelve acres would get no relief. The anomalies would be absurd enough to break down the system. Once again it seems necessary to point out that land revenue is a levy on the land owned ; economic holdings refer to the land cultivated, whether as owner or tenant. The case for relief must be based upon economic consideration, e.g., on cultivation and not on ownership. I have shown in my pamphlet on Cultivators' Holdings in the Punjab that a very large number of the smallest owners have taken extra land on rent.

(*b*) From the above it should be clear that no exemption is called for in favour of those who do not cultivate themselves.

Question 7.—(*a*) As it is proposed to vary the revenue with prices from year to year, there would be difficulty in granting exemptions on the basis of the amount paid. An owner would otherwise be liable to lose his exemption in a year of high prices with the inevitable result of confusion and discontent,

Therefore the exemption would have to be on acreage; but it would not be practicable to take into consideration acreage hired on rent, so that there could not be a real economic basis for relief. From the table in my pamphlet on Owners' Holdings in the Punjab, it will be seen that a large number of petty holders could be relieved at comparatively small loss.

Assuming that the land revenue is fairly evenly distributed among the various sized holdings, then by exemption of areas of one acre and less, over 600,000 owners would benefit at a cost of about four lakhs of rupees. While over 1,500,000 owners with three acres or less could be relieved at a cost of about 20 lakhs of rupees. I believe the practical difficulties would make it impossible to make this at all a fair measure of relief for reasons stated above.

(*b*) The question of mortgage with possession refers to cultivation and not to ownership. It would appear that the proposal refers to owners only and not to cultivators as such, therefore the possession of mortgagees has no bearing.

Question 8.—Please see my answer to 7 (*a*) above. The tables in my "Size and distribution of agricultural Holdings in the Punjab" will enable a fair estimate to be made of the cost of exemptions; e.g., if all owners' holdings of five acres and less were exempted, then 2,375,000 owners, or 58 per cent of the whole would benefit at the cost of about 48 lakhs of rupees. But there would be continuous attempts by those in the higher classes to qualify for the exemption by partitions, gifts, etc.

Question 9.—With over three million persons concerned it would not be at all practical to exercise any efficient check on the malpractices referred to.

Question 10.—(*a*) Yes.

(*b*) The first part of this question refers to owners' holdings, this part refers to cultivation which has little to do with ownership. A man could partition his land amongst his sons and yet the family could have exactly the same area to live on.

Question 11.—With about 60,000 sales a year, after ten years there would be 600,000 cases requiring reconsideration. Per village the number would be small and the period of fixity would not introduce any insuperable difficulty except that to check malpractices amongst so many potential cases would be a strain on the staff.

Question 12.—There seems to be some mistake in this question; on the whole land in congested tracts is more highly

assessed because the very congestion has forced more intensive systems of cultivation on the people.

The distribution of the revenue demand over the village lands is one for the people themselves and I doubt if they in practice take less per acre from the small owner than from the large one. The Settlement Manual was not written by an expert in rural economics and there is much confusion of thought in it. Roughly speaking, outside the colonies, the size of owners' holdings varies inversely with the rainfall; roughly speaking, land revenue tends to vary directly with the rainfall, so that the size of holdings tends to vary inversely with the revenue, i.e., the congested areas are more highly assessed than those more sparsely populated.

Question 13.—I assume the question refers to the proposal for exemption. As already stated one who rents his land at *batai* deserves no exemption from revenue. But tenancy in the Punjab is almost invariably from year to year, and although few cases come to court there is a fairly large change over every year as is disclosed at the girdawari. I do not think that if exemption were confined to self-cultivators (*khudkasht*) this would have any appreciable effect on the renting of petty plots by small owners.

Question 14.—Where the owner cultivates himself the burden of land revenue is too small to call for special remissions. Where he rents his land, he does not deserve any special consideration.

Question 15.—As half the land is cultivated by tenants, most of whom pay in kind, there is no connexion between land revenue and costs of cultivation; it is paid from the rent and the cultivator pays labour and costs. In the case of the self-cultivator, obviously the above theoretical relationship cannot be altered. Also it must be remembered that the revenue is a tax on the *ownership* of land, it has to be paid precedent to the owner being allowed to continue in possession. It is in no sense part of the costs of cultivation. It cannot be. It has nothing to do with cultivation as it is due to be paid whether the land be cultivated or not. The land revenue system in the Punjab is that found in the old districts; the conditions in colonies are temporary only and do not represent the system properly.

Question 16.—The present definition is cumbersome and not altogether logical. I would define "Net Assets" of an estate or group of estates as the estimated average rental which that estate or group would yield if the whole were let at the average rental prevailing in the estate or group, or if there be

insufficient data from actual rental within the estate or group, then at the average rentals prevailing in the assessment circle.

Such a definition approximates closely to the working principle adopted by Settlement Officers in the past ; it covers most of the points in the present definition and avoids the fallacious assumption that land revenue has anything to do with crops.

Question 17.—I prefer to refrain from attempting an answer to this hypothetical and difficult question. In general I would oppose any tendency to add complications to the present income-tax system where small earners are concerned.

Question 18.—I do not think this is necessary, as the small owner pays so little. He probably is now paying more in customs duties than in land revenue. The burden of customs has increased sevenfold in 25 years. The average land revenue per head has increased by only one-half in forty years. This latter increase is largely due to the expansion of the more highly assessed irrigated areas and in part to rise of prices. I think I am correct in saying that nowhere has the land revenue been increased where these two factors are absent ; that is to say, that on any land where there has been no expansion of irrigation and where there has been no rise in the price of its produce, I know of no instance of a rise of land revenue.

The average incidence of all taxation per head in 1931-32 was Rs. 3-9-8 exclusive of land revenue and Rs. 4-12-6 inclusive of it, so the land revenue would appear to be only one-fourth of the total paid. A small relief in assessment for the small owner would be a negligible relief to his total burden of taxation.

Question 19.—If it be decided to raise the demand from the larger owners, then it would, in my opinion, be fair to begin only where the owner is a rent receiver. It is difficult to draw a hard and fast line, but in general, I think, subject to verification, that owners of land up to twelve to fourteen acres cultivate it themselves ; that owners beyond this and up to 25 acres cultivate part at least of their land. Beyond 25 acres, there begins a tendency to rent the whole but it would hardly be safe to assume this before the fifty acre holding begins. Assuming that such a change has been determined upon (I am not recommending it) then owners of fifty acres and above should pay a higher rate ; owners of between 25 and fifty acres might pay at a higher rate than those below 25 acres. Owners in the group five to 25 acres might pay the standard rate, and owners of smaller plots could then be given some relief.

As an example, owners under five acres could be exempt if—

(*i*) owners of from five to 25 pay as at present ;

(*ii*) owners of from 25 to fifty pay 12½ per cent more (or two annas in the rupee of land revenue) ;

(*iii*) owners of over fifty acres pay 25 per cent more (or four annas in the rupee of land revenue). This last class would then be paying on an average Rs. 2-3-0 per acre as against the present Re. 1-12-0.

I think this would be as practicable as any other ; the standard rate would be the present demand or demand calculated as at present, and there would be no difficulty in making the two additional calculations.

Question 20.—The main question has been answered above. It seems clear from the figures given on page nine of the questionnaire that there is little to be gained from going beyond the payers of Rs. 500 land revenue. I have indicated how the groups under five acres could be relieved by surcharges of two and four annas in the rupee on the larger owners. Now the present incidence of land revenue is about six to eight per cent of the gross, and as the half *batai* rent works out at about 45 per cent of the gross produce, it should be clear that anything above my suggested surcharge of four annas in the rupee would soon become unbearable. Already such a surcharge would amount to about 22 to 25 per cent of the produce received as rent, and I would not go above the legal limit of 33 per cent.

Question 21.—In Egypt there is an excise duty on every bale of cotton pressed ; this works out at about Rs. 13—15 per acre of cotton grown, so it is somewhat heavy.

I see no objection to levying income-tax on agricultural incomes above Rs. 1,000. The taxable income could be conventionally estimated at three times the revenue paid, from which would be deducted the revenue, leaving twice the land revenue as income subject to income-tax. In England, I understand that the taxable part of a farmer's income is round about his rent, but, of course, agricultural rents are low there.

I have already mentioned that in some countries there is a tax on land based upon its assumed sale value. (There is or was a good book on this in the University Library, dealing with land taxes in various countries.)

Question 22.—Nothing to add.

Question 23.—Local rates are so small that the small owners would not get material relief from their total abolition,

e.g., a man with three acres pays about Rs. 6 land revenue or less, local rate at fifteen per cent on this is about one rupee a year or less. This is one of the smallest items in his budget.

Question 24.—I believe this proposal to be quite impracticable. Some of the suggestions seem to assume that land revenue is paid by the cultivator and not by the landowner. *Qua*-cultivator, no one pays land revenue, as this is a condition of ownership.

Questions 25 and 26.—No suggestions.

Question 27.—Please see answer to question 21.

Question 28.—No suggestion.

Question 29.—None whatever ; the land revenue is so light that it imposes no obstacle. The difficulty in the development of agriculture, in the Punjab as in England, is that there are so very few openings for the investment of capital which promise a return even as low as that from Government paper. Consolidation of holdings is an obvious exception which seems an almost essential precedent to better farming in the fragmented districts. More intensive methods of cultivation are highly desirable, but it is not easy to find markets for the new produce.

Question 30.—I once read through the Land Administration reports from about 1869 onwards and do not think there is a single instance of land revenue making agriculture unprofitable or throwing land out of cultivation. I have never heard of any. But I believe there have been cases of poor land being abandoned and the land revenue appeared to be excessive.

Question 32.—The land revenue is so light that complete exemption for the small owner could hardly affect his standard of living. An owner of five acres pays less than ten rupees a year or less than a rupee a month. Assuming an average family of five, there could be no appreciable improvement in their standard of living. I do not think the land revenue has the slightest effect on the birth rate or that its abolition would have.

Question 33.—It is just possible that a higher rate on large owners might lead them to take greater interest in improvements but I do not recollect any evidence in favour of this.

Question 34.—No suggestion.

Question 35.—No suggestion.

Question 36.—I doubt if any tenant has an agricultural income within the income-tax limit from his tenancy. Some contractor lease-holders at colony auctions may have and these might suitably be liable to income-tax if the sum so promised offered any appreciable return. I doubt if there are many, if any, mortgagees who from that land obtain taxable income.

Question 37.—The demand for land on rents is responsible for the very high rate of half *batai*. Probably half those who cultivate land (*c. f.* my *Cultivators' Holdings*) would take more on rent if land were available within reasonable distance. Under such circumstances I do not think that any reduction of land revenue would be passed on to the tenant. On the other hand, I feel sure that if it were enacted that nowhere should rents exceed three times the land revenue (and land revenue is supposed to be one-third of the rent), there would be a demand from all over the province for a considerable rise in land revenue.

Question 38.—Certainly not. The State should in the public interest take a reasonable share. At present it takes a very small share, so small that the sale value of newly irrigated land rises rapidly. The State should aim at taking from 25 to 50 per cent of the unearned increment. It might take it by what used to be called owners rate, or by making all sales of irrigated land compulsorily registrable and imposing a duty on all such sales.

Question 39.—No.

Question 40.—(*a*) No.

(*b*) No.

Question 41.—The sale price of land is a famine price (*c. f. Wealth and Welfare*) and does not seem to be at all affected by any change in the land revenue. In theory a reduction of land revenue should be followed by a rise in value, but actually I know of no evidence that such is the case. The landowner can already borrow far more money than he can profitably invest in his land or use in his agricultural operations and no further facility is needed.

H. CALVERT.

Note on the proposal to exempt small owners from Land Revenue.

I have answered to the best of my ability the questions set ; but there are one or two considerations of a general nature that may be thought worth thinking over.

(1) The small owner forms by far the great majority of land owners in the province, so that any proposal affecting him

affects the majority of the people. Hitherto, he has been the special care of the administration and his welfare has constantly occupied the attention of the government of the day. He has paid revenue which in the total has amounted to an appreciable sum, and great and elaborate care has been taken to ensure that the burden of taxation does not fall too heavily upon him.

If he is to be relieved of the payment of land revenue, several results are likely to follow. He will cease to be of importance as a contributor to provincial finances, and to this extent the solicitude of Government will tend to decline. It will be no longer important to watch carefully that his ability to pay is not impaired by seasonal or other calamity. The interest of Government in his welfare will wane.

(2) Under the present system, many of the small holders will lose their vote as they will pass below the franchise qualifications.

(3) The village papers which have hitherto had a great importance as indicating from whom revenue has to be collected will lose a large part of that importance and I would anticipate a decline in the efficiency with which they are maintained.

(4) In Ceylon there is no land revenue, there are no village papers, there is no record of rights, no harvest inspection and no record of crops and harvests. Government does not know who owns the land, who tills it, what crops are sown, what mature, what the economic condition is of owner, tenant or labourer. In the provision of certain amenities, such as roads, schools, dispensaries, etc., the richer Government of Ceylon has done more for the villager than the poorer Punjab Government can afford to do; but it is a simple fact that the Government has little if any interest in the general condition of the villager. I am inclined to think that there will be a danger of similar conditions following the loss of interest in the small owner as a revenue payer. There will no longer be any object in ascertaining all the information as to his rights, his crops, his rents, his labourers and so on with the present accuracy. I suggest that the lot of the small owner will suffer if he no longer makes a substantial contribution to the exchequer. There will be no longer any necessity to visit villages to see that no signs of distress are appearing; the larger revenue payer will loom larger in the eyes of the administration than he succeeds in doing to-day. Those of us who have spent many years in the villages know how strong is the tendency to accept the larger owner as representative of all; we have seen officers at the centre getting their ideas almost exclusively from them. The small man seldom tries to secure interviews with high officers; his case is not loyally put by the bigger men but in such a movement as that of Co-operation, his importance becomes real. It is

the small man, not the big owner, who enlists in the army and police ; it is he who feels the first pinch of want in lean years and yet it is rare to find one of this class coming forward to make known the case for his fellows. Members of co-operative societies are largely drawn from this class and some sort of leadership is growing into influence through these ; but it is not yet enough and from my experience of Ceylon I am inclined to fear that the man who pays no revenue will receive less attention in future from the government of the day, beset on all sides by insistent clamour for favours and concessions on behalf of those who can point to their fiscal importance.

NOTE D.

Note on the Assessment of *Khudkasht* land and *Sir* in the United Provinces by Mr. C. H. Cooke, I.C.S., Settlement Officer, Meerut (paragraph 130).

1. *Sir* in the Agra Provinces is defined in section 4 of the Agra Tenancy Act, III of 1926. Briefly, it generally represents land in which the landlord acquired rights in or before 1926 through varying periods of cultivation by himself, or by his servants with his own stock, or by hired labour. Once land is recorded as *Sir*, it can be sublet for any period without ceasing to be *Sir*, and subtenants of *Sir* can acquire no rights of occupancy therein however long they may be in cultivatory possession. *Khudkasht* is land cultivated by the landlord or by his servants, etc., in which he has no *Sir* rights, and as soon as he ceases to cultivate it, such land automatically ceases to be *Khudkasht*. The landlord may, however, now acquire *Sir* rights in *Khudkasht* which he has continuously cultivated for ten years after 1926,—*vide* section 4 (*e*), Agra Tenancy Act. This he can only do by application to the Collector, and there are limits laid down restricting the area in which new *Sir* rights can be acquired in this way. In actual practice, nearly all *Sir* in Agra now is land in which rights were acquired by 1926 when the present Agra Tenancy Act was brought into force.

2. At settlement all land recorded as *Sir* and *Khudkasht* is valued at standard rates,—*vide* section 63-D (*b*), Land Revenue Act. In an Agra settlement two sets of rates are framed by the Settlement Officer—standard rates and statutory rates. The former are based on rent rates of occupancy tenants who held for twenty years or more, but whose rights were acquired *after* the previous settlement, and the latter on the prevailing rent rates of statutory tenants [section 63 (2) (*d*)]. These are usually anything from 25 per cent to 100 per cent higher than standard rates, so that the concession of applying the standard rate for the valuation of *Sir* and *Khudkasht* is in itself considerable. In Oudh only one set of rates called standard rates are framed, which approximate to statutory rates in Agra [section 63 (2) (*a*)], owing to the fact that there are very few occupancy tenants in Oudh, and for the purpose of valuing *Sir* and *Khudkasht* in Oudh, rates 25 per cent below standard rates are used [section 63-D (*b*)].

Section 63 (2) (*b*).

3. In calculating the assets of a *mahal*, only cash-rented land held by statutory tenants is valued at statutory rates

and all other land, including ex-proprietary, occupancy, *Sir* and *Khudkasht*, grain-rented, rent-free, and unrented is valued at standard rates. In the case of cash-rented exproprietary, occupancy, and statutory land, the valuation at circle rates is compared with the recorded rents, and it is then discretionary with the Settlement Officer what figure he accepts in each tenure for purposes of assessment. In the case of old unenhanced occupancy or exproprietary where the recorded rents are much below valuation, he usually allows for the landlord's right to enhance such inadequate rents by accepting a figure up to 25 per cent above recorded rents. Where the recorded rents, whether of exproprietary, occupancy, or statutory, are high and are above his valuation, he accepts a figure somewhere between the valuation and recorded rents, to allow for abatements and instability.

4. *Sir* and *Khudkasht* is valued also at standard rates and the Settlement Officer is bound to make a deduction from such valuation for "proprietary cultivation" of not less than fifteen per cent and not more than thirty per cent,—*vide* the last clause of section 63-D. Under section 63 (1), however, the percentage deduction on this account cannot be less than 25 per cent in *mahals* where the average area of the proprietary share is less than 65 acres, and can be as high as thirty per cent. It should be noted, however, that the wording is "for proprietary cultivation" and not for "*Sir* and *Khudkasht*" and this makes a difference in practice. The practice is to interpret "proprietary cultivation" as meaning "*Sir* not sublet, and normal *Khudkasht*". In other words, if there are 100 acres of *Sir* of which 25 acres are sublet, the deduction is made from the valuation of 75 acres of *Sir* only. Similarly if the area shown as *Khudkasht* is abnormally high in the year of record compared with previous years, and the Settlement Officer has good reason to believe that the sudden increase is only temporary and due to a desire to secure a larger deduction than would otherwise be due, he may use his discretion in selecting a "normal area" of *Khudkasht* based on the figures of previous years, and give a deduction on the valuation of that area only. The zamindar concerned can then of course appeal to the Settlement Commissioner and the Board, but interference with the Settlement Officer's discretion in such a case is extremely rare.

5. In a district like Meerut, where the majority of the land is held by petty proprietors, the deduction for proprietary cultivation has been nearly always 25 per cent, as *mahals* in which the average proprietary share is more than 65 acres and where a lower deduction than 25 per cent can be given

are comparatively few. There is, however, a great deal of abuse of the concession allowed to *Sir* and *Khudkasht* holders, and not only is a great deal more land shown in the papers as *Khudkasht* than is actually cultivated by proprietors, but much more *Sir* is actually sublet than is recorded. During record operations which precede settlement, every effort is made to correct wrong entries, and every *zamindar*, tenant, and sub-tenant is issued with slips showing all details of proprietor and tenancy holdings and objections are invited which are dealt with by a staff of Assistant Record Officers working under the Settlement Officer. Even so, however, many errors remain, owing generally to collusion between *zamindars*, and *patwaris*.

6. Having arrived at his net assets, i.e., the total valuation at the appropriate rates of all cultivated land in the *mahal*, less deduction for proprietary cultivation and for improvements (new wells, etc.), the Settlement Officer assesses the *mahal* by taking a percentage of the net assets which is normally forty per cent in the case of prosperous *zamindars*, and 37 per cent or 38 per cent where there are numerous petty proprietors. In deciding what percentage of assets to take, however, the Settlement Officer must keep an eye on the percentage of enhancement over the old revenue, and he cannot exceed 33·3 per cent enhancement save in exceptional circumstances—e.g., where there has been an increase in the cultivated area of more than ten per cent since the previous settlement. These points are all laid down in sections 63-K and L, Land Revenue Act.

7. In conclusion it should be noted that a Bill has recently been introduced into the United Provinces Assembly which seeks to amalgamate the existing Agra Tenancy Act of 1926 and the Oudh Act of 1921. It proposes to curtail the privileges attaching to *Sir* and to grant hereditary rights to tenants of *Sir* after five years' cultivation. This will in effect mean the extinction of *Sir* rights in a large proportion of the present *Sir* area.

NOTE E.

Note by Mr. H. R. Stewart, I.A.S., Director of Agriculture, Punjab.

Crop Forecasts and Standard Yields.

It is generally held by commercial concerns that the outturns of the principal crops, such as wheat and cotton, as published in official crop forecasts are usually very much underestimated. Estimates of business firms interested in these commodities are almost always higher than the official figures.

The various crop forecasts issued by this Department are based on data supplied by Revenue and Agricultural officers, supplemented by such information as is available from any other sources. The statistics regarding acreage are accurate since they are obtained by actual *Girdawari*. Those of yield, however, do not rest on a similarly solid foundation. They are in the main personal estimates from a number of sources, though after harvest they may be revised in the light of results obtained from crop cutting experiments or other information. These experiments, however, are not made in very large numbers and their reliability as representing the average yield of the whole crop is not free from doubt. The selection of an average field in a large tract is a matter of great difficulty even for those who are accustomed to it and apart from any other grounds for doubt which may exist, there is always the possibility that a crop cutting result may not have been obtained from a really representative field.

It is felt, however, that one of the most important factors which influence the forecast for any crop is the official standard yield of that crop. Tables of standard yields of all the principal crops are published quinquennially for each district and for the province as a whole. These figures, it is believed, have a definite influence, even though it may be an unconscious one, on the subordinate official when forecasting the outturn of a crop in the area under his charge and he is either afraid or unwilling to depart far from them. If this contention is correct, the importance of taking such measures as may be necessary to fix accurate standard yields for the principal crops cannot be overemphasised.

Unfortunately there is no means of checking the accuracy of forecasts and standard yields of most of the important crops. Cotton provides the one exception. Under the provisions of the Cotton Ginning and Pressing Factories Act, 1925, all factories

make official weekly returns of the quantity of cotton pressed by them. At the end of the season, therefore, the total commercial crop is known and can be compared with the forecasts.

All cotton, however, that is produced in the field does not find its way to the ginning factory. A part is retained by the grower for his personal needs, such as filling quilts and pillows and making cloth. Hitherto it has been customary to accept the purely conventional figure of 1 lb. of lint per head of population as representing the home consumption of cotton in India as a whole. Recently the Indian Central Cotton Committee financed a wide-spread enquiry into the home consumption of cotton in all the major cotton growing tracts of India. This enquiry which has now been completed has indicated that for the whole of India the average annual consumption is probably not more than half a pound of lint per head. There is, however, a very wide difference in the home consumption of cotton in different parts of India. In Madras Presidency the quantity was found to be only 0·078 lb. per head. The Punjab provides the other extreme, as is natural from its climatic conditions, and consumes 3·3 lbs. of lint per head per annum. On this basis the 23,580,000 inhabitants of the province use annually 195,000 bales of lint, which never reaches the cotton ginning factory and so is not included in the commercial crop. This home consumed cotton has represented annually a minimum of one maund and a maximum of 1·5 maunds of *kapas* per acre on the total area under cotton in the province for the last ten years. It is, therefore, a factor which cannot be omitted in forecasting the outturn of this crop.

The tables below provide very interesting data to show the average outturn of *kapas* actually obtained in recent years by the cultivators of cotton in the Punjab. The quinquennium 1927—32 has been selected because the last official standard yield has been issued on the outturn for those years. This standard yield is 127 lbs. of lint per acre for the Punjab as a whole. This is equivalent to 4·63 maunds of *kapas* per acre. It will be seen that, apart from any cotton which was consumed in the households, the cotton actually sold by cultivators and ginned in factories represented average outturn from his fields of 4·65 maunds per acre. If to this figure is added the home consumption as based on the Indian Central Cotton Committee's enquiry, it will be seen that the actual average yield of cotton in the province for this quinquennium was 5·95 maunds of *kapas* per acre. The official standard yield of cotton for this quinquennium is thus 28·5 per cent too low. If, as is contended, the district estimates for the official cotton forecast in any year are

influenced by the current standard yield, the provincial forecasts cannot be other than very seriously under-estimated :—

Year.	Area of cotton in acres.	Baled crop (in terms of 400 lbs.).	*Baled crop per acre maunds *kapas*.	*Home consumption per acre maunds *kapas*.	Total outturn per acre maunds *kapas*.
1927-28 ..	1,841,400	653,200	5·06	1·49	6·55
1928-29 ..	2,508,900	713,200	4·06	1·13	5·19
1929-30 ..	2,208,500	766,300	4·95	1·23	6·18
1930-31 ..	2,164,200	798,100	5·27	1·31	6·58
1931-32 ..	2,159,700	615,700	4·07	1·33	5·40
Total ..	10,882,700	3,546,500	4·65 (Average.)	1·30 (Average.)	5·95 (Average.)

Another quinquennium has just been completed and a fresh standard yield will be prepared for issue shortly. Up-to-date data similar to those given above have, therefore, been added below :—

Year.	Area of cotton in acres.	Baled crop (in terms of 400 lbs.).	*Baled crop per acre maunds *kapas*.	*Home consumption per acre maunds *kapas*.	Total outturn per acre maunds *kapas*.
1932-33 ..	1,890,000	645,500	4·88	1·54	6·42
1933-34 ..	2,449,000	1,194,600	6·97	1·20	8·17
1934-35 ..	2,347,000	1,001,300	6·09	1·27	7·36
1935-36 ..	2,803,000	1,335,900	6·81	1·07	7·88
1936-37 ..	2,909,000	1,431,100	7·03	1·04	·07
Total ..	12,398,000	5,608,400	6·46 (Average.)	1·20 (Average.)	7·66 (Average.)

*In calculating the results in these two tables the following facts have been taken into consideration :—

(*a*) The bale of 400 lbs. has a tare of eight pounds (sacking and hoops): the net weight of cotton is, therefore, 392 lbs.

(*b*) The census in 1931 showed that the population during the preceding ten years had increased by an average of 1·1 per cent annually. The actual population has been used in the 1930-31 calculation, but it has been reduced annually by that percentage in the years prior and increased correspondingly in the years subsequent to it.

It will be observed that whereas for the previous quinquennium the *kapas* actually sold by the cultivator to ginning factories averaged 4·65 maunds per acre, in the quinquennium which has just been completed it was 6·46 maunds per acre. When home consumption is included the average annual total outturn of *kapas* for the whole Punjab during the last five years was 7·66 maunds per acre. It is clear, therefore, that the last official standard yield for the province will require considerable revision.

There is no reason to believe that what has been proved to be the case with the cotton crop does not apply equally to all the other principal crops in the province and there is strong reason to feel, therefore, that probably all the standard yields are considerably under-estimated.

NOTE F.

Note by the Registrar, Co-operative Societies, Punjab, on the Repayment of Co-operative Loans in Grain (paragraphs 118—121).

THE Moradabad District Central Bank, which is a small bank of a total working capital of Rs. 3,00,000 introduced a scheme of 'Grain Payment' in 1931-32. The main points in the scheme were that members were allowed to bring grain to a commission agent (*Arhti*) appointed by the Bank in five *mandis* in the district. This grain was stored and ultimately sold under the instructions of a Director-in-Charge of the *Arhti*. On the whole the working of the scheme showed a profit as prices rose, and a dividend of one anna in the rupee was declared for all contributing members.

2. The scheme had its defects as the *Arhtis* were not above peculation and storage arrangements were not always perfect. The general effect, however, was that the arrears of Rs. 74,000 in 1931 were reduced to Rs. 4,000 in 1936.

3. In introducing such a scheme in the Ambala Division it was found not possible to risk storing grain against a rise of prices at the expense of the Central Banks.

4. During April, 1937, the following Banks and Unions decided to appoint *Arhtis* for payment in grain—

(1) Karnal Central Bank,

(2) Rohtak Central Bank,

(3) Sonepat Union,

(4) Delhi Central Bank,

(5) Gurgaon Central Bank,

(6) Palwal Union,

(7) Nuh Union,

and arrangements were made in seventeen *mandis*. The conditions of each Bank were examined and the scheme was modified to suit the requirements of the locality. In general it was decided to take grain and allow one anna in the rupee concession on the value of the grain brought in. In some cases the expenses of the *mandis* were also reduced.

5. The main idea underlying the scheme was that remission of some part of the debt should be made on a contributory basis. The grave defect of concession on any other basis was that members did not appreciate the concession.

6. Apart from this there were also many other advantages in paying in grain :—

(*i*) Repayment was made easy. There was no taking cash from the *Mandi* back to the Treasurer of the Society and there was no money-order commission or travelling expenses in remitting the money collected by the treasurer to the Central Bank. The members also did not waste a fraction of the amount received for grain on miscellaneous expenditure in the bazar on the way home. Once the member had brought his grain to the *Arhti* all that he had to do was to hand over the receipt to the treasurer.

(*ii*) The time factor in repayment was also in favour of the 'grain scheme'. If money was asked for, there were so many other creditors and demands that the member found that he had nothing left for the Bank when the Sub-Inspector managed to reach his village. When grain was taken, the money went straight to the Bank immediately after the harvest and helped in reducing interest charges in the Central Bank as well.

(*iii*) Lending institutions also decided to re-advance up to fifty per cent of the amount paid in cases recommended by the Inspectors even where the society was in class 'D' in order to get money in circulation once again. As the member realized that if he repaid, he would also have the privilege of re-borrowing in case of need he became more ready to repay.

(*iv*) It was also possible to arrange for this new advance to be made in kind through the *Arhti*, that is to say, the loan would be advanced as improved seed without any cash being handed to the member. In some cases, the *Arhti* was also the agent for the Agricultural Department and this made it easy for the loan to be advanced in kind.

(*v*) In some cases where the amount of concession covered a repayment in principal and was excessive, the Central Bank arranged with the Assistant Registrar to write off the amount from the funds of the Primary Society where possible.

(*vi*) Apart from the great advantage of remission on a contributory basis, the scheme also offered great advantages in the supervision and control of

marketing methods. In most *mandis* the terms which the *Arhti* was prepared to accept from the Bank were considerably more favourable than those offered to the individual seller.

(*vii*) Although the storing of grain was not done by the Central Bank, in Nuh it was being done by the members on their own responsibility. A sharp rise in prices between the end of May and the end of July resulted in a considerable profit for those members who had stored grain with the *Arhti*— almost sixteen per cent.

(*viii*) Another advantage not lightly to be ignored was the willingness of the *Arhtis* to undertake this work for the Bank and in many cases there was a sharp competition for the post. The scheme enlists the co-operation of the *Arhti* and uses traditional methods. It does not declare war on him in the way that the Credit Societies declare war on the village *sahukar*. The *Arhtis* I visited were all proud to have been employed by the Central Bank and they themselves suggested many improvements in the account keeping which will be adopted.

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NOTE G.

The Taxation of Land (by Mr. B. K. Madan, Assistant Secretary, Resources and Retrenchment Committee).

1. The methods of levying the taxes vary considerably in different countries according to the basis on which they are assessed. The taxes may be based on (1) the capital value of the land which is usually determined by the sale value from time to time; (2) the annual or rental value ; (3) the unimproved or public value, that part of the capital value which is not due to the efforts of the owner or occupier, but to the prosperity of the community and other external causes quite unconnected with the activities of such owners and occupiers ; (4) the net income of the farmer, the total of the earnings of management and of the value of the labour of the farmer and his family ; and (5) the net produce, i.e., the gross produce minus the expenses of production. Capital value is the rule in the United States and annual value in Great Britain. In new countries, such as Australia and New Zealand, unimproved values are the basis of land taxation. Net income is the method of assessment usually followed where the income from land is taxed in the form of an income-tax, as in Sweden where there are no land taxes so far as the Central Government is concerned. The net produce is usually the basis of land taxation in India.

Great Britain.

2. An annual land tax was introduced in 1692. By the Land Tax of 1797 a total sum of £ 1,905,077 was levied on ' real estate ' and in the following year this was fixed by Pitt permanently and subject to redemption. It is interesting to note that the fixing of the land tax permanently in Great Britain took place in the same decade as the fixing of the land revenue for all time in Bengal, parts of Bihar and Orissa, of the United Provinces and of Madras. Pitt converted the land tax into a redeemable rent charge with permission to persons interested in lands to buy up and become themselves entitled to an amount of rent charge equal to tax. The aggregate of the unredeemed quotas in Great Britain on the 24th March, 1934, was £ 861,052. For the year 1933-34 the net receipts after allowing for deductions were £ 583,825 out of a total tax revenue of £ 709 millions or only 0·08 per cent. A large part of the tax has been redeemed at 30 times the annual charge, but since August, 1921, the rate for redemption is 25 times the tax assessed. All holdings have *ceteris paribus*, had their capital value increased where the tax has been redeemed by the sum paid for redemption. Similarly the selling value of land which has not been so exonerated is depreciated by the capital value of the tax.

The maximum rate leviable is 1 *s.* in the £ on the annual value of the unexonerated property as determined for income-

tax, Schedule A. Total relief from land tax is granted to owners of unexonerated property whose total income does not exceed £ 160 per annum, and an abatement of one-half the tax is allowed to owners whose total income does not exceed £ 400 per annum provided the relief is claimed before the payment of the tax. The approximate amounts remitted under these heads were £ 146,488 and £ 68,350, respectively, in 1933-34.

In addition to the land tax there are other and more important land taxes in Great Britain, viz., Schedule A and Schedule B of the income-tax. Schedule A includes income from the ownership of lands, houses, buildings, and certain miscellaneous hereditaments (tithes, ecclesiastical dues, memorial profits certain sporting rights, etc.). The expression 'lands' includes farm houses occupied by tenant farmers and also farm buildings. The gross assessment is the annual value or gross income, i.e., the rent at which the property is let or is worth for letting by the year, and certain statutory allowances or deductions are made from this to arrive at the actual income. Schedule B is profits from the occupation of lands and relates mainly to farmers' profits. The assessment is on a conventional basis which assumes that profits bear a relation to the annual value of the lands occupied.

The Dominions.

3. The general features of the taxation of land in Australia and New Zealand are (1) the taxation of unimproved ground values and the exemption of improvements from taxation; (2) the exemption of small landowners from taxation and the withholding of the exemption limit from companies, absentees, and large landowners; (3) the extra taxation of absentees and companies. In South Australia, for example, absentees pay an additional twenty per cent over the usual taxes; and (4) the additional liability of income from land to the general income-tax, both state and federal. The first tax on land in Australia was imposed by Victoria in 1877, at the rate of 1¼ per cent of the capital value, with exemptions up to £ 2,500. The example was gradually followed by other states. The land taxes are on the unimproved value of land, the value of the building and other improvements being excluded from assessment, and in Queensland, South Australia and Tasmania are graduated. These vary from 1*d.* to 8*d.* in the £ in Queensland, from ¾*d.* to 1½*d.* in South Australia, and from ¾*d.* to 3¾*d.* in Tasmania. The Commonwealth Government in 1910 levied a federal land tax graduated at rates varying from 1*d.* to 6*d.* in the £, and in 1926 the rates were from 1*d.* to 9*d.* in the £. In Western Australia, Victoria, and New South Wales, land taxes are levied at a flat rate. Except in New South Wales where the land tax was ·02 per cent of the total state taxes, land taxes

were in 1931-32 about eight per cent of the total state tax revenue.

In Canada land is taxed in the majority of the provinces for state purposes, Quebec being a notable exception. In some of these the land tax is a large proportion of the total provincial revenues, while in others the yield is unimportant. In Prince Edward Island, for example, it is sixty per cent of the total tax revenue, while in Nova Scotia it is about eight per cent. In British Columbia the real property tax includes the taxation of land. In some provinces, viz., in British Columbia and Prince Edward Island, the land tax is supplemented by a tax on income and in almost all provinces by a tax on corporations. Cities and towns tax land to a large degree, and in Western Canada considerable use is made of unimproved land values for taxation purposes.

In South Africa the system of land taxation is briefly as follows: In the Orange Free State, the Transvaal, and the three old Transvaal districts annexed to Natal after the Boer War there is a land tax on all occupied land. In the Orange Free State the tax was based on the extent and not on the value of the land. It is similarly levied in the Transvaal, where, however, the rate is higher on quit-rent tenure than on land held in freehold. The cost of collection is high, and it has been suggested that it should be converted into a redeemable rent charge. In the Cape and Natal such taxes do not exist, although the Union Government obtains a small revenue from these provinces in the form of rent or quit-rents.

The main features of land taxation in Great Britain and the Dominions may be thus summarized: (1) An up-to-date system of land valuation; (2) the assessing of land taxation on a percentage of the capital value, which is adjustable from year to year; (3) where a tax has been permanently fixed, e.g., in Great Britain, there are other means of taxing profits from land; (4) local rates or taxes on land for local purposes; (5) the successful taxing of unimproved land and the extra taxation of absentees and companies as in Australia and New Zealand.

France.

4. In addition to the land tax proper (for its description, *c.f.*, Taxation Enquiry Committee Report) there is an agricultural profits tax, combined with a general or supplementary income-tax.

The agricultural profits tax is levied on rental value and the rate is twelve per cent. It is calculated by adding 75 per cent to the rental value and multiplying by three (or 2·5 for wheat lands and five for market gardens and woods if worked commercially) or by taking the actual profits of the preceding year, whichever is

less. 2,500 francs is the exemption limit, and also the abatement with partial abatements for all incomes from agriculture between 2,500 and 8,000 francs. The general or supplementary tax has an exemption limit and abatement, 7,000 francs, with allowances for wife, children and dependents. There is an increase of 25 per cent in the general income-tax if the tax-payer is unmarried or divorced and is over thirty and without a child or dependent, and of ten per cent if married and over thirty and without a child or dependent after two years of married life. The tax varies between 1·2 per cent on the income between 7,000 and 20,000 francs, and rises to thirty per cent on the portion above 550,000 francs. Agricultural income is not fully taxed, and in a recent year the tax on land and the tax on agricultural profits were of the land tax and total income taxes on all classes of income only fourteen and one per cent, respectively, as against 33 per cent, the tax on industrial and commercial profits.

Italy and other European countries

5. The taxation of land, as in France, is achieved by means of a land tax proper and by the machinery of the income-tax. The land tax (*imposta sui terreni, imposta fondiaria*) is assessed on rental value and is distinct from the agricultural profits tax. The rate is now 7½ per cent and is fixed according to a system of cadastres, revised periodically according to the law of 1886. If land is let to a farmer the proprietor himself pays the land tax. The taxation of agricultural profits is by means of a tax on income assessed on the basis of declarations by a commission in each district, and these are assessed at half the standard rate, fourteen per cent, i.e., seven per cent. There is in addition the general or supplementary income-tax (*imposta complementare globale progerssiva sub reddito*). The exemption limit is 6,000 lire before allowing for a five per cent abatement for each child or dependent excluding wife and 3,000 lire after allowing for them and the rates vary from one to ten per cent. As in France surtaxes for local purposes, for provinces and municipalities are added to those taxes and are not to exceed as a maximum 150 per cent of the basic rate of the land tax. Local surtaxes may also be levied on the state income-tax as well as on the land tax. Thus a farmer with an income of 100,000 lire (£ 1,081) cultivating his own land would pay 7½ per cent land tax, seven per cent on agricultural profits, two per cent on supplementary income-tax, 11¼ per cent (maximum 28 per cent on the land tax) together with two per cent on the state income-tax, or, roughly, a total state and local taxation amounting to thirty per cent. In Hungary and Czechoslovakia there is a state land tax, a general income-tax, a capital tax and surtaxes for local purposes by local bodies. In Austria, since the War, the land tax has been entirely local, the Central Government taxing income from land only through a general income-tax and a capital tax. In Sweden

the land tax was abolished at the end of the last century, and the Central Government taxes income from land through income-tax. All taxable land is valued every five years, and the land-owner or the farmer is given the alternative of declaring his income or being assessed on income calculated at six per cent of the valuation. When the owner himself is farming the land the rate is twelve per cent. Local taxes are levied on the same basis, and the rates vary from four to sixteen per cent. In Bulgaria the land tax was abolished in favour of an income-tax in 1921, but re-introduced in 1923 as peasants did not declare their incomes. The income-tax in 1923 was modified to exclude income from land.

Japan.

6. The taxation of land in Japan is in marked contrast to that which obtains in China. It is based on the capital value of land, which is arrived at by capitalizing the annual rental of the land whether for residential or cultivation purposes. The State imposes a land tax of 2·5 per cent on residential land, 4·5 per cent on rice and other cultivated land. As the cadastre is out of date these percentages do not reflect the actual burden. It is roughly ¼ per cent of the capital value. Cultivated land of a value below 200 yen, not tenanted but situated in the same city, town, or village where the owner lives or in the neighbourhood is free from the tax. Prefectures, cities, towns and villages are permitted as public bodies to levy an additional tax (fukazei) on the land tax for purposes of revenue. The rate of this additional tax is by no means uniform but varies according to local financial conditions.

Japan is an example of the differentiation of tax rates according to the nature of the crop, rice being grown on wet land. The value of wet land per acre in the last quinquennium was approximately yen 143 (Rs. 190), and of dry land, yen 37 (Rs. 49). The average land tax would thus work out to yen 6·4, or Rs. 8-8-0 for wet land, and yen 1·7 or Rs. 2-3-0 for dry land, or an average of something like Rs. 5 per acre. The superiority of the Japanese land tax over that of India lies in its elasticity. Thus in an emergency (as in the Russo-Japanese War) the tax could be raised without difficulty by increasing the percentage payable on the assessed value of the land. In addition there is the income-tax on agricultural incomes, which can be increased in such a contingency.

United States.

7. In the United States of America taxes on land are assessed on the capital value. Reference may be made for this purpose to Seligman : *Essays in Taxation* : Lutz : *Public Finance* ; King : *Public Finance* ; and other books on American finance of which there are many.

IX I.

RS OF DIFFERENT CATEGORIES IN THE PROVINCE.

	13	14	15	16	17	18	19	20	21	22	23	24	25	26
	Revenue payers ay more than 0 but not eding Rs. 100.	Land Revenue payers who pay more than Rs. 100 but not exceeding Rs. 250.		Land Revenue payers who pay more than Rs. 250 but not exceeding Rs. 500.		Land Revenue payers who pay more than Rs. 500 but not exceeding Rs. 1,000.		Land Revenue payers who pay more than Rs. 1,000 but not exceeding Rs. 5,000.		Land Revenue payers who pay more than Rs. 5,000 but not exceeding Rs. 10,000.		Land Revenue payers who pay land revenue exceeding Rs. 10,000.		Total amount paid.
	Amount of land revenue paid.	Total number.	Amount of land revenue paid.	Total number.	Amount of land revenue paid.	Total number.	Amount of land revenue paid.	Total number.	Amount of land revenue paid.	Total number.	Amount of land revenue paid.	Total number.	Amount of land revenue paid.	
	Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.	
751	1,18,163	720	1,06,842	152	52,168	55	37,915	36	67,079	5	29,495	..	..	1,095,286
107	73,294	274	38,041	62	7,567	18	12,423	4	6,104	..	..	..	..	1,357,922
193	2,10,818	899	1,22,131	93	33,421	36	23,223	15	27,530	2	13,337	1	36,017	1,494,911
443	1,63,088	545	75,916	68	21,668	23	16,110	7	13,261	..	..	1	13,648	1,315,591
889	1,88 155	692	97,977	77	26,211	30	22,256	12	28,545	..	..	..	..	1,477,450
6	416	2	303	..	..	1	570	..	..	..	..	..	..	16,552
339	7,53,934	3,132	4,41,210	457	1,41,035	168	1,12,497	74	1,42,519	7	42,832	2	49,665	6,757,712
707	45,876	183	26,190	66	18,534	13	8,859	6	12,920	..	..	..	..	957,682
337	2,11 532	1,028	1,36,471	152	53,111	40	28,498	12	21,577	..	..	..	..	1,686,690
209	2,09,748	749	99,253	67	30,585	18	11,537	4	4,790	..	..	1	15,695	1,738,985
617	1,82,914	415	57,424	35	13,052	12	7,775	5	8,160	..	..	..	..	1,563,113
941	2,30,575	1,066	1,55,963	186	65,240	56	39,833	16	29,684	..	..	1	36,140	1,629,416
811	8,80,645	3,441	4,75,301	506	1,80,522	139	96,502	43	77,131	..	..	2	51,835	7,560,905
161	2,02,284	1,125	1,43,924	176	60,283	48	32,396	19	36,896	..	..	..	..	1,286,317
265	2,04,116	843	1,13,304	74	24,815	19	12,807	13	16,864	2	11,980	..	..	1,598,803
172	2,79,086	1,290	1,76,317	171	65,020	44	30,119	18	31,573	..	..	..	..	1,726,711
909	1,79,614	737	98,286	76	23,781	13	9,011	6	9,859	..	..	..	..	1,42 ,012
549	2,27,270	1,377	1,94,482	253	1,66,943	75	51,616	11	21,756	..	..	1	19,964	1,300,974
759	3,54,029	3,077	4,59,641	331	3,34,410	161	1,07,621	67	1,12,991	3	24,313	1	15,830	2,090,959
815	14,46 999	8,449	11,85,954	1,581	6,75,202	366	2,43,570	134	2,29,939	5	36,293	2	35,794	9,432,775
366	2,24,033	1,484	2,27,841	184	60,292	43	28,969	13	18,690	..	..	..	..	1,632,484
362	2,18,723	5,682	5,75,262	695	1,56,590	147	97,995	83	1,38,792	2	13,646	2	25,202	1,871,266
592	34,476	177	24,889	52	17,147	15	9,981	4	6,370	..	..	..	..	743,356
411	27,654	104	15,678	21	7,549	3	1,951	..	..	..	..	..	..	572,178
127	75,470	472	71,143	112	39,465	29	19,340	15	28,498	..	..	1	15,398	703,046
568	39,336	167	29,940	36	13,742	21	15,224	9	24,817	1	6,074	..	..	413,651
426	6,25,692	8,086	9,44,753	1,100	2,94,785	258	1,73,460	124	2,17,167	3	19,720	3	40,600	5,935,981
327	6,16,287	2,656	3,83,685	556	2,13,839	159	1,08,511	88	1,52,436	2	12,635	1	10,217	2,623,816
497	12,74,849	9,945	13,57,669	957	3,07,115	282	1,97,617	51	89,234	1	7,237	1	11,791	4 680,774
496	2,32,435	1,185	1,79,314	232	87,046	80	52,369	61	1,04,708	2	13,438	..	..	1,182,419
582	5,12,269	3,346	4,96,088	720	2,49,438	308	2,17,625	170	3,02,152	2	12,388	1	13,744	2,900,450
310	94,618	566	81,759	88	30,283	41	28,545	13	18,353	..	..	..	..	736,755
691	45,404	312	46,042	80	34,005	35	22,851	17	34,923	1	6,863	1	14,993	496,180
903	27,68,862	18,010	25,44,557	2,633	9,21,726	905	6,27,518	400	7,01,806	8	52,561	4	50,745	12,620,394
344	64,74,132	41,118	55,91,775	6,277	22,13,270	1,825	12,53,547	975	13,68,562	23	1,51,406	13	2,28,639	42,308,738

STATEMENT SHOWING THE NUMBER OF LAND REVENUE PAYE

1	2	3	4	5	6	7	8	9	10	11	1
Name of district.	Total number of land revenue payers.	LAND REVENUE PAYERS WHO PAY Rs. 5 OR LESS.			LAND REVENUE PAYERS WHO PAY MORE THAN Rs. 5 BUT NOT EXCEEDING Rs. 10.		LAND REVENUE PAYERS WHO PAY MORE THAN Rs. 10 BUT NOT EXCEEDING Rs. 20.		LAND REVENUE PAYERS WHO PAY MORE THAN Rs. 20 BUT NOT EXCEEDING Rs. 50.		LAND WHO Rs. EXC
		Total number.	Amount of land revenue paid.	Number of land revenue payers who do not cultivate.	Total number.	Amount of land revenue paid.	Total number.	Amount of land revenue paid.	Total number.	Amount of land revenue paid.	Total number.
			Rs.			Rs.		Rs.		Rs.	
Hissar	119,432	76,836	1,45,759	21,541	21,362	1,38,509	15,362	1,86,822	7,466	2,12,534	
Rohtak	145,435	63,000	1,40,898	14,495	33,388	2,33,585	28,047	3,46,372	17,174	4,99,641	
Gurgaon ..	119,897	50,984	1,16,221	7,581	27,382	1,91,949	22,339	3,10,395	14,948	4,45,886	
Karnal	145,836	80,209	1,53,613	24,303	28,428	2,06,895	21,259	3,02,286	12,390	3,62,754	
Ambala	128,483	57,895	1,61,893	24,359	26,878	1,90,839	22,782	3,20,380	14,996	441,194	
Simla	5,048	4,157	6,849	191	617	4,084	208	2,333	57	1,497	
Tota ..	664,131	333,081	7,25,233	92,380	133,055	9,65,861	109,988	14,69,088	67,031	19,63,506	11
Kangra	228,856	176,827	3,04,006	8,739	32,494	2,20,732	13,984	1,93,993	4,576	1,26,572	
Hoshiarpur ..	177,211	99,808	1,61,857	27,401	33,322	2,56,135	27,109	3,66,694	16,343	4,50,815	
Jullundur	188,030	70,450	1,22,907	43,534	36,588	2,61,160	31,616	4,24,261	19,267	5,39,049	
Ludhiana	142,792	54,887	1,01,027	30,395	29,655	2,16,112	27,255	3,84,259	14,765	4,92,390	
Ferozepore ..	137,498	64,730	1,19,275	30,845	30,342	2,12,156	23,932	3,38,158	14,228	4,38,532	
Total ..	875,287	457,702	8,09,072	140,914	167,401	11,66,295	123,956	17,07,365	69,179	20,67,358	1
Lahore	114,965	59,654	94,413	33,263	21,022	1,48,252	16,454	2,28,094	11,082	3,39,775	
Amritsar	134,158	57,069	1,09,540	28,989	34,398	2,33,969	23,078	3,35,876	15,397	4,85,532	
Gurdaspur ..	132,425	53,381	1,09,970	23,956	40,895	1,91,252	24,323	3,12,208	16,903	5,31,166	
Sialkot	146,737	69,094	1,35,059	35,247	30,115	2,23,891	23,698	3,20,335	13,584	4,20,726	
Gujranwala ..	73,392	30,053	48,643	11,796	14,225	99,902	12,656	1,63,901	11,292	3,26,461	
Sheikhupura ..	68,162	22,835	42,568	12,036	11,069	77,913	11,046	1,55,092	13,146	4,06,041	
Total ..	669,839	292,086	5,40,193	145,287	151,724	10,24,679	111,255	15,24,416	82,004	25,09,701	
Gujrat	105,677	96,443	1,87,022	27,946	31,106	2,17,516	20,562	2,83,607	12,476	3,82,514	
Shahpur	93,103	45,125	83,980	25,166	18,895	1,57,105	11,913	1,97,441	5,794	2,06,550	
Jhelum	126,486	78,422	1,44,017	26,235	25,991	2,14,925	11,258	1,75,496	4,015	1,12,055	
Rawalpindi ..	165,782	109,048	1,65,287	23,211	21,800	1,41,001	9,455	1,26,390	3,235	88,668	
Attock	84,559	54,457	98,863	19,316	15,127	1,06,870	8,647	1,18,379	4,319	1,29,620	
Mianwali	69,963	50,021	74,110	14,804	11,754	73,310	4,907	66,278	2,479	70,820	
Tota l ..	699,575	424,516	7,51,279	132,728	124,673	9,10,727	66,742	9,67,591	32,318	9,90,227	
Montgomery ..	86,956	17,125	35,998	7,163	14,685	1,06,212	19,645	2,94,447	22,712	6,95,549	
Lyallpur	99,757	11,104	26,411	6,222	9,664	75,828	17,017	2,64,823	32,238	10,71,200	
Jhang	61,287	26,780	52,745	14,154	11,955	83,410	10,390	1,43,608	9,156	2,94,846	
Multan	107,693	39,008	76,656	19,190	17,997	1,29,659	8,528	2,73,209	20,074	6,17,222	
Muzaffargarh ..	101,434	71,023	1,14,505	29,679	15,192	1,12,439	8,759	1,20,909	4,822	1,35,344	
Dera Ghazi Khan ..	104,289	86,835	94,348	37,718	8,393	60,219	4,724	62,875	2,664	73,657	
Total ..	561,416	251,875	4,00,663	113,526	77,886	5,67,767	79,063	11,59,871	91,666	28,87,818	
GRAND TOTAL ..	3,470,248	1,759,260	32,26,440	624,835	659,739	6,35,329	491,004	68,28,331	3,42,198	1,04,18,610	

Errata slip to the Appendices of the Report of the Land Revenue Committee, 1938.

(1) Page (i), Appendix I, 1st column—*Read* " Total " *for* " Tota " below Simla.

(2) Page iv, Appendix IV, column 5 (Rice)—Against Serial No. 5—*Read*—

" 1-12-0 " Dhan 2-5-0 Ziri 2-2-0	*for*	" 1-14-0 " 2-5-0 Siri 2-2-0

(3) Page viii, Appendix IV, column 5 (Rice)—Against Serial No. 29—*Read* " Kerrand " *for* " Kerr and ".

(4) Page xiii, Appendix VII (*i*), column 1 Serial No. 4—*Read* " Kala Gaddi Thaman " *for* " Kali Gaddi Thamman ".

(5) Page xiii, Appendix VII (*i*), column 1, Serial No. 5—*Read* ' Naggal " *for* " Nangal ".

(6) Page xiv, Appendix VII (*i*), column 1, Serial No. 11—*Read* " Durana " *for* " Durrana ".

(7) Page xv, Appendix VII (*ii*), column 1, Serial No. 4—*Read* " Kala Gaddi Thaman " *for* " K. G. Thaman ".

(8) Page xv, Appendix VII (*ii*), column 1, Serial No. 11—*Read* " Durana " *for* " Durrana ".

(9) Page xvi, Appendix VII (*iii*), column 1, Serial No. 3—*Read* " Kala Gaddi Thaman " *for* " K. G. Thaman "

(10) Page xvi, Appendix VII (*iii*), column 1, Serial No. 10—*Read* " Durana " *for* " Durrana ".

(11) Page xvii, Appendix VII, (*iv*), column 1, Serial No. 10—*Read* " Durana Langana " *for* " Durrana Langa ".

(12) Page xviii, Appendix VII (*v*), column 1, Serial No. 4—*Read* " Thaman " *for* " Thamman ".

(13) Page xviii, Appendix VII (*v*), column 1, Serial No. 11—*Read* " Durana Langana " *for* " Durrana Langa ".

(14) Page xxi, left hand column, beginning of the page—*Read* " Patwari " *for* " atwari ".

(15) Page 5 of Index, left hand column, 10th line under S—*Read* " harassment " *for* " harassmeut ".

(16) Page 5 of Index, left hand column, 16th line under S—*Read* " Officer and " *for* " Officerand ".

[*To be pasted after page 232.*]

298 FC—1,000—21-9-39—SGPP Lahore.

सत्यमेव जयते

APPENDIX III.

Statement showing what would have been the cost of the sliding scale system if it had been in force throughout the Punjab in 1937 (paragraph 106).

District.	Remission due in		Total.
	Rabi, 1937.	*Kharif*, 1937.	
	Rs.	Rs.	Rs.
Hissar	87,864	3,864	91,728
Rohtak	13,690	..	13,690
Ambala	38,797	..	38,797
Jullundur	1,36,678	..	1,36,678
Lahore	74,455	..	74,455
Amritsar	11,602	..	11,602
Sialkot	2,837	..	2,837
Gujranwala	2,49,690	66,997	3,16,687
Sheikhupura (excluding Rakh Branch Colony Circle).	3,04,537	1,62,500	4,67,037
Gujrat	2,11,211	19,617	2,30,828
Shahpur	4,10,152	48,965	4,59,117
Attock	8,205	..	8,205
Mianwali	41,280	..	41,280
Jhang	3,50,088	48,361	3,98,449
Multan (Multan, Kabirwala and Shujabad tahsils only).	1,90,470	..	1,90,470
Muzaffargarh	39,041	..	39,041
Total ..	21,70,597	3,50,304	25,20,901

Note.—(*a*) The remission for *Rabi* is based upon the prices prevailing in *Rabi* and *Kharif*, 1936, and for *Kharif* on those prevailing in *Kharif*, 1936, and *Rabi*, 1937.

(*b*) The areas in which the system is already in operation have not been included, i.e., the districts of Lyallpur and Montgomery. Nor has Simla been included as the necessary information is not readily available.

(*c*) No remission would have been due in the following districts :—
Gurgaon.
Karnal.
Kangra.
Hoshiarpur.
Ludhiana.
Ferozepore.
Gurdaspur.
Jhelum.
Rawalpindi.
Dera Ghazi Khan.

(*d*) The figures for *Kharif*, 1937, are comparatively low as the price of wheat in *Rabi*, 1937, was relatively high.

(*e*) The calculations have been made by assessment circles.

APPENDIX IV.

Statement showing the dates of the last settlements and the commutation prices adopted in all districts in the Punjab.

Serial No.	Name of district.	Year of Settlement.	Commutation prices sanctioned at the last Settlement.								
			Wheat.	Gram.	Gur (sugar-cane).	Cotton.	Rice.	Bajra.	Jawar.	Maize.	Rape-seed.
			1	2	3	4	5	6	7	8	9
			Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.
1	Hissar ..	1906—10	2 0 0	1 5 0	2 12 0	4 6 0	1 6 0	1 8 0	1 4 0	1 4 0	2 13 0
	Sirsa ..	1920—22	3 0 0	2 0 0	..	..	2 4 0	2 4 0	1 11 0	..	..
2	Rohtak ..	1905—10	2 0 0	1 6 0	2 11 0	4 4 0	1 4 0	1 9 0	1 5 0	1 8 0	..
	Sonepat ..	1905—10	2 8 0	1 14 0	3 2 0	5 0 0	..	1 14 0	1 9 0	..	..
3	Gurgaon ..	1903—09	2 0 0	1 7 0	2 13 0	4 0 0	..	1 7 0	1 4 0	1 6 0	..
			2 1 0	1 8 0	..	4 6 0	..	1 10 0	1 6 0	1 7 0	..
4	Karnal ..	1904—10	1 15 0	1 5 0	2 10 0	4 0 0	1 8 0 Ziri.	..	1 4 0	1 4 0	2 11 0
			1 13 0	1 8 0	..	..	1 2 0	1 8 0	..	..	..
							1 4 0 Coarse Dhan.				
5	Ambala ..	1915—20	2 6 0	1 13 0	3 12 0	5 12 0	1 14 0	1 13 0	..	1 14 0	..
			2 5 0	..	..	..	2 5 0 Siri.	..	..	..	..
							2 2 0				

6	Simla ..	1910—13	2 6 0	..	..	..	1 14 0	..	..	1 14 0	..
		1915—17	3 4 0*	..	..	..	3 5 0	..	..	1 3 0	
							Begmi. 1 7 0			1 6 0	
							1 10 0				
7	Kangra ..	1910—13	2 0 0	1 10 0	4 0 0	4 8 0	1 13 0	1 4 0	1 4 0	1 8 0	..
		1912—18	1 12 0	2 0 0	..	..	1 10 0	..	..	1 10 0	..
			1 14 0				1 8 0				
8	Hoshiarpur ..	1910—14	2 0 0	1 10 0	3 6 0	4 8 0	1 12 0	1 10 0	1 7 0	1 12 0	..
			1 14 0	1 8 0	3 10 0					1 10 0	
9	Jullundur ..	1913—17	2 6 0	1 14 0	4 2 0	5 12 0	2 1 0	2 3 0	2 0 0	1 14 0	..
10	Ferozepore ..	1910—14	2 2 0	1 9 0	Rs. 180 per acre.	4 12 0	1 12 0	1 8 0	1 8 0	..	..
			2 4 0								
11	Lahore ..	..	..	..	..	..	..	..	..	..	..
	New Pattoki Mandi.	1932 ..	2 6 0	1 12 0	..	5 12 0	2 0 0	..	1 14 0	1 14 0	..
	Old Pattoki Mandi.										
12	Amritsar ..	1910—14	2 4 0	1 10 0	3 10 0	4 12 0	1 12 0	..	1 10 0	1 9 0	..
			2 2 0								
13	Gurdaspur ..	1907—12	1 14 0	1 8 0	2 14 0	4 6 0	1 10 0	1 5 0	1 4 0	1 6 0	..
14	Sialkot ..	1911—17	2 2 0	1 12 0	3 5 0	5 0 0	2 2 0	1 9 0	..	1 11 0	..
15	Gujranwala ..	1923—26	3 0 0	2 8 0	5 0 0	7 8 0	2 13 0	2 3 0	Rs. 20 per acre.	2 3 0	4 11 0 oil seeds.

*For Kot Khai and Kot Guru.

APPENDIX IV – CONTD.

ement showing the dates of the last settlements and the commutation prices adopted in all districts in the Punjab – contd.

Serial No.	Name of district.	Year of Settlement.	Commutation prices sanctioned at the last Settlement.								
			Wheat.	Gram.	Gur (sugar-cane).	Cotton.	Rice.	Bajra.	Jawar.	Maize.	Rape-seed
			1	2	3	4	5	6	7	8	9
			Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.
16	Ludhiana –	1908–11	2 0 0	1 8 0	2 14 0	4 6 0	1 10 0	1 5 0	1 4 0	1 6 0	
17	Sheikhupura ..	1924–26	3 0 0	2 8 0	5 0 0	7 8 0	2 13 0	2 3 0	Rs. 20 per acre.	2 3 0	4 11 0 oil-seeds.
18	Gujrat ..	1912–16	2 4 0	1 12 0	Rs. 100 per acre.	5 8 0	2	1 13 0	1 11 0	1 12 0	..
	Phalia and Kharian canal-irrigated.	1925–28	3 0 0	2 8 0	Rs. 60 per acre.	7 8 0	2 8 0	2 4 0	..	2 4 0	Rs. 10 per acre oil-seeds.
19	Shahpur ..	1911–16	2 4 0	1 8 0 1 12 0	Rs. 100 per acre.	5 8 0	1 8 0	1 14 0	1 10 0	1 12 0	..
	Sargodha (colony tract)	1921–25	3 4 0	2 4 0	Rs. 45–60–75 per acre.	7 8 0	..	2 4 0	..	2 4 0	Rs. 12–15 per acre.
	Balwal (colony tract)				Rs. 50–70 per acre.						Rs. 10–12–15 per acre oil-seeds.

20	Jhelum ..	1895—1901	1 10 0 1 7 0	1 3 0 1 1 0	..	3 10 2 4 0 0	..	1 4 0	..	1 6 1 1 4 0	2 0 0 1 13 0 oil-seeds.
21	Rawalpindi ..	1902—07	1 14 0	1 9 0	..	4 0 0	1 5 0	1 8 0	1 4 0	1 7 0	..
22	Attock ..	1923—27	2 8 0	2 0 0	4 0 0	5 10 0	..	1 15 0	1 12 0	2 0 0	..
			2 4 0	1 13 0	4 6 0			1 13 0		1 14 0	
			2 0 0	1 9 0				1 10 0		1 12 0	
23	Mianwali ..	1903—06	1 12 0	1 6 0	..	4 0 0	..	1 8 0	1 4 0	..	..
	„ Tehsil	1927-28	2 10 0	2 0 0	..	5 10 0	..	1 14 0	1 12 0	..	..
	Bhakkar ..	1924—26	2 8 0	2 0 0	Rs. 100 per acre.	5 0 0	..	1 14 0	1 12 0	..	..
24	Montgomery ..	1919—23	2 12 0	2 0 0	Rs. 100 per acre.	5 10 0	2 0 0	2 1 0	1 12 0	2 0 0	3 10 0
	Lower Bari Doab Colony.	1929—34	3 8 0	2 12 0	5 0 0	A. 9 0 0 D. 7 0 0	2 12	..	..	..	Rs. 40 per acre oil-seeds.
25	Lyallpur ..	1933—37	3 12 0	3 4 0	8 0	A.12 8 0 D.10 8 0	Rs. 32 per acre.	..	..	3 0 0	Rs. 32 per acre.
26	Jhang ..	1921—27	3 2 0	2 9 0	5 9 0						
			3 6 0	2 14 0	Rs. 100 per acre.	9 6 0	2 7 0	3 0 0 2 14 0	2 0 2 15 0	2 14 0	4 4 0 oil-seeds.

APPENDIX IV—CONCLD.

Statement showing the dates of the last settlements and the commutation prices adopted in all districts in the Punjab—concld.

Serial No.	Name of district.	Year of Settlement.	Commutation prices sanctioned at the last Settlement.								
			Wheat.	Gram.	Gur (sugar-cane.)	Cotton.	Rice.	Bajra.	Jawar.	Maize.	Rape-seed.
			1	2	3	4	5	6	7	8	9
			Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A. P.	Rs. A P	Rs. A. P.	Rs. A. P.	Rs. A. P.
27	Multan ..	1917—21	2 6 0	2 1 0	4 2 0	5 10 0	1 14 0	2 1 0	1 12 0	1 14 0	3 10 0 oil-seeds.
			2 9 0			6 2 0	2 0 0	2 5 0	2 0 0		
	Lower Bari Doab Colony.	1929	3 8 0	2 12 0	5 0 0	A. 9 0 0 D. 7 0 0	2 12 0	..	..	..	Rs. 40 per acre oil-seeds.
28	Muzaffargarh..	1920—25	2 8 0	2 0 0	4 0 0	5 0 0	1 8 0	1 14 0	1 12 0	..	..
29	Dera Ghazi Khan.	1916—21	2 2 0	1 11 0	..	4 11 0	1 7 0	1 14 0	1 10 0	..	..
			2 4 0	1 14 0		5 5 0	1 9 0	1 15 0	1 12 0		
			2 5 0	1 13 0		4 13 0	1 8 0 2 0 0 Kerr and rice, Jampur. 1 6 0	1 13 0	1 11 0		

APPENDIX V.

Statement showing the loss of revenue if the demand in each assessment circle were reduced to 25 per cent of the net assets (paragraph 127).

District.	*Loss of Revenue.*
	Rs.
Hissar	1,81,017
Rohtak	4,47,257
Gurgaon	5,31,573
Karnal	5,62,137
Simla	2,425
Ambala	64,239
Kangra	4,00,606
Hoshiarpur	88,100
Ludhiana	1,41,800
Ferozepore..	71,380
Lahore	69,769
Gurdaspur	4,86,227
Montgomery	1,06,450
Sialkot	3,60,939
Shahpur	76,142
Jhelum	2,28,170
Rawalpindi	1,57,904
Multan	6,69,317
Muzaffargarh	3,01,094
Dera Ghazi Khan	81,011
Amritsar	87,725
Mianwali	17,395
Total loss ..	51,32,677

सत्यमेव जयते

APPENDIX VI.

Statement showing the average prices of Cotton, Wheat, Gram and Gur during the last 10 or 20 years (paragraph 101).

	First half of December.	Average from November to February.
(1) Cotton.—		
Desi.—Last 10 years..	Rs. 6-6-5	Rs. 6-6-0
Higher by	0·4 %	..
American.—Last 10 years	Rs. 8-11-7	Rs. 8-9-9
Higher by	1·3 %	..

	First half of April.	Second half of April.	Average from 15th May to 31st August.
(2) Wheat.—			
1st 10 years	Rs. 5-2-3	Rs. 5-1-6	Rs. 5-0-7
Higher by	2·1 %	1·1 %	..
2nd 10 years	Rs. 3-0-2	Rs. 2-13-8	Rs. 2-12-9
Higher by	7·6 %	2 %	..
Average of 20 years ..	Rs. 4-1-2	Rs. 3-15-7	Rs. 3-14-7
Higher by ..	4·1 %	1·6 %	..

	First half of April.	Second half of April.	Average from 15th April to 31st July.
(3) Gram.—			
1st 10 years	Rs. 4-1-10	Rs. 4-0-0	Rs. 4-5-2
Lower by ..	4·8 %	7·5 %	..
2nd 10 years	Rs. 2-10-4	Rs. 2-9-3	Rs. 2-9-8
Higher by ..	1·6 %	Lower by 1 %	..
Average of 20 years ..	Rs. 3-5-6	Rs. 3-4-7	Rs. 3-7-5
Lower by ..	3·5 %	5·1 %	..

APPENDIX VI—CONCLUDED.

Statement showing the average prices of Cotton, Wheat, Gram and Gur during the last 10 or 20 years (paragraph 101)—concluded.

	1st half of November.	Average—December to March.
(4) Gur.—		
1st 10 years	Rs. 9-4-10	Rs. 7-6-11
Higher by	25·2 %	..
2nd 10 years	Rs. 5-4-10	Rs. 3-12-9
Higher by	39·6 %	..
Average of 20 years	Rs. 7-4-10	Rs. 5-9-10
Higher by	30·1 %	..

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APPENDIX VII.

Statements from Village Surveys made under the Direction of the Punjab Board of Economic Enquiry.

(*i*) Average cultivated area per owner at different dates .. ..

(*ii*) Percentage of owners in villages with less than one acre .. ..

(*iii*) Percentage of owners who do not cultivate ..

(*iv*) Borrowing for Land Revenue .. ..

(*v*) Owners who in addition are tenants and landless tenants .. ..

(*i*) AVERAGE CULTIVATED AREA PER OWNER AT DIFFERENT DATES.

(REFERENCE.—PUNJAB VILLAGE SURVEYS.—CHAPTER IV, Q. 1.)

District, village and year of enquiry.	Year.	Cultivated area of the village.	Number of owners.	Average area per owner.	REMARKS.
		Acres.		Acres.	
1. Amritsar, Gaggar Bhana, 1924-25.	1924-25	1,386	189	7·33	
	1891-92	1,394	140	10·2	
2. Rohtak, Gijhi, 1925-26	1924-25	707	119	5·9	
	1900-01	620	112	5·5	
3. Jullundur, Tehong, 1925-26.	1924-25	2,161	734	2·94	
	1899-1900	2,181	671	3·25	
4. Lyallpur, Kali Gaddi Thamman, 1925; 1926-27.	1925-26	1,362	72	18·9	Village colonized in 1899. Proprietary rights given in 1912.
	1924-25	1,355	67	20·2	
	1913-14	1,368	59*	23·2	
	1903-04	1,377	44†	31·3	
5. Ambala, Nangal, 1926-27; 1928.	1927-28	716	108	6·6	
	1923-24	661	107	6·2	
	1919-20	512	103	5·0	
	1917-18	617	108	5·7	
	1909-10	660	117	5·6	
	1905-06	704	124	5·7	
	1901-02	720	118	6·1	
	1897-98	770	115	6·7	
	1893-94	828	105	7·8	
	1889-90	804	105	7·7	
	1885-86	834	93	9·0	

*3 Crown tenants.

†All Crown tenants.

(*i*) AVERAGE CULTIVATED AREA PER OWNER AT DIFFERENT DATES—CONCLUDED.

(REFERENCE—PUNJAB VILLAGE SURVEYS.—CHAPTER IV, Q. 1.)

District, village and year of enquiry.	Year.	Cultivated area of the village.	Number of owners.	Average area per owner.	REMARKS.
		Acres.		Acres.	
6. Gujranwala, Gajju Chak, 1926; 1927.	1925-26	451	122	3·7	
	1910-11	460	119	3·9	
	1890-91	461	98	4·7	
7. Gurgaon, Bhadas, 1926-27; 1930.	1930	1,651	255	6·47	
	1900	1,707	253	6·74	
8. Muzaffargarh, Bhambu Sandila, 1931-32.	1929-30	869	327	2·66	
	1899-1900	734	217	3·38	
9. Ferozepore, Suner, 1932-33.	1931-32	1,811	190	9·5	
	1912-13	1,812	153	11·8	
	1887-88	1,776	134	13·3	
10. Hissar, Jamalpur Sheikhan, 1926; 1935.	1934-35	5,073	498	10·19	
	1924-25	4,979	456	10·92	
	1898-99	4,759	301	15·81	
11. Multan, Durrana Langana, 1925-26; 1935-36.	1935-36	3,656	115*	31·79	The averages are misleading as ¾ths of estate belongs to two owners.
	1932-33	3,656	117	31·25	
	1928-29	3,773	106	35·60	
	1924-25	3,408	103	33·09	
	1898-99	2,803	67	41·84	

*Five are owners in name only excluding the two big owners.

NOTE.—The above table bears witness to a progressive decrease in the size of holdings except in the case of two or three villages.

(*ii*) OWNERS WITH LESS THAN ONE ACRE EACH.

(REFERENCE PUNJAB VILLAGE SURVEYS: CHAPTER IV, Q. 4.)

	District, village and year of enquiry.	Year.	Total number of owners.	OWNERS WITH LESS THAN ONE CULTIVATED ACRE.	
				Number.	Percentage.
1.	Amritsar, Gaggar Bhana, 1925-26.	1925-26	163	20	12·3
2.	Rohtak, Gijhi, 1925-26.	1925-26	119	42	35·3
3.	Jullundur, Tehong, 1925-26.	1925-26	734	216	29·4
4.	Lyallpur, K. G. Thamman, 1925; 1926-27.	1926-27	67	..	..
5.	Ambala, Naggal, 1926-27; 1928.	1923-24	107	12	11·2
6.	Gujranwala, Gajju Chak, 1926-27.	1927	122	23	18·8
7.	Gurgaon, Bhadas 1926-27; 1930.	1930	255	33	13·0
8.	Muzaffargarh, Bhambu Sandila, 1931-32.	1931-32	327	171	52·3
9.	Ferozepore, Suner, 1932-33.	1932-33	190	55	28·9
10.	Hissar, Jamalpur Sheikhan, 1926; 1934-35.	1934-35	498	105	21·1
		1924-25	456	63	13·8
11.	Multan, Durrana Langana, 1925-26; 1935-36.	1936	110	19	17·3
		Average of 11 districts		..	23·03

(*iii*) OWNERS WHO DO NOT CULTIVATE.

[REFERENCE : PUNJAB VILLAGE SURVEYS : CHAPTERS I, Q. 5(1) ; IV, Q. 7.]

District, village and year of enquiry.	Year.	Total number of owners.	OWNERS WHO DO NOT CULTIVATE.		REMARKS.
			Number.	Percentage.	
1. Amritsar, Gaggar Bhana, 1925-26.	1925	163	65	39·9	
2. Rohtak. Gijhi, 1925-26.	1925	119	27	22·7	
3. Lyallpur, K. G. Thamman, 1925 ; 1926-27.	1927	67	13	19·4	
4. Ambala, Naggal, 1926-27; 1928.	1928	108	51	47·2	
5. Gujranwala, Gajju Chak 1926; 1927.	1926	27	5	18·5	Resident owners only.
6. Gurgaon, Bhadas, 1926-27 ; 1930.	1930	158	33	20·9	
7. Muzaffargarh, Bhambu Sandila, 1931-32.	1931	177	31	17·5	Resident owners only.
8. Ferozepore, Suner, 1932-33.	1932	258	86	33·3	Including occupancy tenants.
9. Hissar, Jamalpur Sheikhan, 1926 ; 1934-35.	1934	458	110	24·0	Resident owners only.
10. Multan, Durrana Langana. 1925-26 ; 1935-36.	1936	119	90	81·8	
	Average of 10 districts		..	32·52	

(*iv*) BORROWING FOR LAND REVENUE.

Village.	Number of cases examined.	Number of cases in which there was borrowing.	Number who *had* to borrow.
1. Gijhi (Rohtak District), 1925-26.	30	4 large owners ..	1 medium owner.
		4 medium owners.	3 small owners.
		12 small owners.	
2. Tehong (Jullundur District), 1925-26.	30	3 large owners ..	2 large owners.
		3 medium owners.	3 medium owners.
		4 small owners.	3 small owners.
3. Kala Gaddi Thaman (Lyallpur District), 1926-27.	30	19	13
4. Naggal (Ambala District), 1928.	30	*Nil*	..
5. Gajju Chak (Gujranwala District), 1926-27.	27	5	3 owners (one holding).
6. Bhadas (Gurgaon District), 1926-27; 1930.	30	7	3
7. Bhambu Sandila (Muzaffargarh District), 1931-32.	30	5 (Two others sold cattle to pay.)	5
8. Suner (Ferozepore District), 1932-33.	30	4	1
9. Jamalpur Sheikhan (Hissar District). 1935.	30	4	2
10. Durrana Langar (Multan District), 1935-36.	30	9	3

Percentage of column 4 to column 2 : 14·5.

(v) OWNERS WHO ARE ALSO TENANTS, AND LANDLESS TENANTS.

(REFERENCE: PUNJAB VILLAGE SURVEYS: CHAPTER XIV.)

District, village and year of enquiry.	Total Number of cultivators.	Owner-tenants.*	Landless tenants.
1. Amritsar, Gaggar Bhana, 1925-26.	214	47	31
2. Rohtak, Gijhi, 1925-26 ..	123	At least 61	21
3. Jullundur, Tehong, 1925-26.	438	147	25
4. Lyallpur, Kala Gaddi Thamman, 1925; 1926-27.	94	31	28
5. Ambala, Naggal, 1926-27; 1928.	81	33	6
6. Gujranwala, Gajju Chak, 1926; 1927.	66	22	18
7. Gurgaon, Bhadas, 1926-27; 1930.	266	201†	91
8. Muzaffargarh, Bhambu Sandila, 1931-32.	175	84	29
9. Ferozepur, Suner, 1932-33	181	95	6
10. Hissar, Jamalpur Sheikhan, 1926; 1934-35.	557	212	71
11. Multan, Durrana Langa, 1925-26; 1935-36.	149	Families 28	90

Average percentage of owner-tenants to number of cultivators: 41.

*i.e., owners who cultivate land as tenants also.

†Some tenants seem to have been counted twice, i.e., as tenants-at-will and as sub-tenants.

GLOSSARY.

Abadi	.. Inhabited site of village.
Anna	.. One-sixteenth of a rupee.
Arhti	.. Commission agent.
Bachh	.. Distribution of revenue over the holdings in a village.
Bajra	.. Spiked millet.
Banjar Kadim ..	.. Old fallow that has lain uncultivated for eight or more harvests.
Barani	.. Land depending on rain for cultivation.
Batai	.. Rent taken by a division of crop.
Bideshi	.. Foreign.
Biswedar	.. A right-holder in an estate.
Chahi	.. Land irrigated by well water.
Commissioner ..	.. Administrative head of a division. There are five divisions in the Punjab.
Crore	.. Ten million.
Darkhwast-malguzari ..	.. Tender of engagement to pay the land revenue assessment.
Deputy Commissioner ..	.. The administrative head of a district. There are 29 districts in the Punjab.
Desi	.. Indigenous.
Girdawari	.. Harvest inspection.
Gujar	.. An agricultural tribe in the Punjab.
Gur	.. Unrefined sugar.
Izzat	.. Social position and personal honour.
Jagirdar	.. Holder of an assignment of land revenue.
Jama	.. Land revenue demand.
Jamabandi	.. Register of holdings of owners and tenants showing land held by each and amounts payable as rent, land revenue and cesses.

Jat	.. One of the chief agricultural tribes in the Punjab.
Jawar	.. A kind of millet.
Kamin	.. Village menial, a labourer.
Kankut	.. Appraisement of crops.
Kanungo	.. Supervisor of patwaris.
Kapas	.. Unginned cotton.
Kham tahsil ..	.. Direct management of an estate by Government.
Kharaba	.. Portion of crop which has failed to mature.
Kharif	.. Autumn harvest.
Khasra Girdawari ..	.. Harvest inspection register.
Khud kasht ..	.. Land cultivated by an owner and his family, or by hired labour.
Killabandi ..	.. The substitution of rectangular fields of uniform size (generally measuring an acre each) for the irregular fields of the average village.
Lakh	.. A hundred thousand.
Lambardar	.. Village headman.
Mahal	.. Estate.
Malba	.. Fund for common village expenses.
Malikana	.. Fee paid to a proprietor.
Mandi	.. Market.
Muafidar	.. The holder of an assignment of land revenue.
Mukaddam	.. Supervisor.
Nabud	.. Total failure of a crop.
Naib-Tahsildar ..	.. A tahsildar's assistant.
Pachotra	.. The five per cent commission paid to the village headman for the collection of the land revenue.
Pakka	.. Established, firm.
Panchayat	.. A group of selected villagers which meets to decide village matters.
Parcha	.. An extract from the revenue records regarding his holding given to a right-holder at measurement during Settlement operations.

Patwari	.. A village accountant maintained by Government in the interests of the records of right-holders in village lands.
Rabi	.. Spring harvest.
Rajput	.. The Kashatrias of Rajputana. In the Punjab numerous Rajput tribes are agriculturists.
Rupee	.. The Indian standard coin,—now stabilized at 1s., 6d.
Sahukar	.. A money-lender.
Settlement Officer ..	.. The officer charged with the revision of land revenue, which is done periodically in each district.
Shamilat	.. The village common lands.
Sir	.. See Note D.
Swadeshi	.. Indigenous.
Taccavi	.. A Loan granted by Government to a landowner for agricultural purposes.
Tahsil	.. A sub-division of a district: In the Punjab there are usually from three to five in a district.
Tahsildar	.. Officer incharge of the administration of a tahsil.
Toria	.. An oil-seed.
Zamindar	.. One who owns land, however little.

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